Rapala®

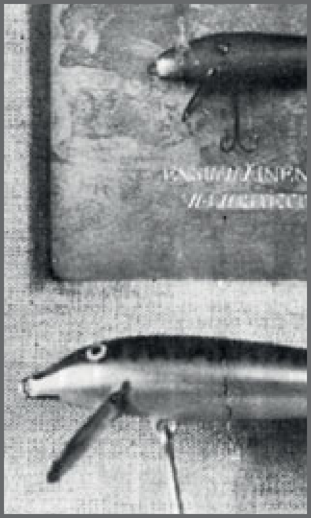
Annual Report 2007

CONTENT

MFK-1 W
J. Marttiini Finland
Hand ground stainless
Rapala
Rapala
FLUORO CARBON
INVISIBLE LEADER LINE
100% Fluoro
Abrasion Resis
High Strength
0.283 mm
50 m
4.5 kg Test
8 lb Test
CLEAR

Crafted from Experience

1936



1945

1959

1962

With a history of 60 years as a business, 70 years of lure making experience and close to 300 world-record catches, Rapala and its products are clearly crafted from experience. With its track record and current unique distribution network, manufacturing platform and brand portfolio, the Group is well positioned for growth.

Necessity – The Mother of Invention (1936–1945)

Lauri Rapala, the founder of the Rapala business, was born into poverty in Finland in 1905. He made his living by farm working and fishing. To make a better living for himself and his family, Lauri started to develop a lure that would increase the productivity of his fishing. In 1936, he finally managed to carve a rough-looking lure that produced an off-centre and enticing wobbling action – the one that is still the basis for many Rapala lures. The story of Rapala lures had begun.

The Business Is Born (1945–1955)

After World War II, Lauri revived his small lure making business that had blossomed just before the war. He was sure he had found a successful lure design, which he developed further. Lauri first made all the lures himself but was soon joined by his family. Production techniques and processes developed step by step. Despite the increased production volumes, Lauri insisted on testing every single lure to make sure that the action was correct. Even today, all Rapala-branded lures are tested before packing.

The American Dream (1955–1965)

Foreign visitors to the Helsinki Olympic Games of 1952 were amongst the first to take Rapala lures outside Finland. In 1955, the first export sales started to Sweden and Norway and later to the USA. In 1957, the business was formalized and the Rapala-Uistin (Lauri Rapala and Sons) company was established. The successful Rapala lures started to build a good reputation in North America, and in 1959, Ron Weber and Ray Ostrom started to distribute Rapala lures in the USA, a business later to become Normark Corporation. In 1962, Life magazine published a long article on Rapala. It happened to be in the same edition that covered the history of Marilyn Monroe who had just died and it broke all circulation records. Consequently, piles of orders started to pour in necessitating major capacity and production increases.

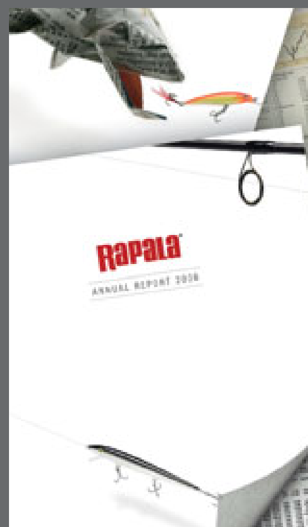
International Co-operation (1965–1975)

While Rapala continued to grow and gain its worldwide reputation, copies started to enter the market: at one time there were more than 40 copies in the US market from all over the world. Since then, Rapala has defended itself against copies with legal actions but more importantly with consistent high quality that has differentiated its original products from copies. After export sales were expanded in the early 60's from the US to Canada, Rapala strengthened the distribution in Sweden in the mid-60's and made the first contacts with the French companies Ragot and VMC. Many new lure models were introduced in 60's and the first Rapala fillet knives were launched in 1967 – the start of the co-operation with Marttiini. By the mid-1970's, Normark had established distribution

Positioned for Growth

1975

1989



1998

2005-

companies in Canada, the UK and Sweden. At the same time, Rapala signed distribution agreements to Denmark and France. The new factory at Vääksy was opened in 1973.

Family Business to Next Generation (1975–1989)

After Lauri Rapala died in 1974, the company name was changed to Rapala Oy and the eldest son Risto was appointed President of Rapala while his brothers Esko and Ensio had their own responsibilities. Production methods and technology were further developed and the capacity increased markedly: while a total of 25 million lures were produced during 1936-1975, the total number of manufactured lures reached 100 million in 1988. The range of lures was further widened, the Blue Fox spinner brand was introduced and a manufacturing unit was established in Ireland. During this time, the Group acquired the Flipper boat company and a caravan business.

A Time of Change (1989–1998)

In 1989, Esko's son Jarmo Rapala, who had led the product development from the mid-80's, was appointed as President of Rapala and Jorma Kasslin as Deputy President. Consequently, a major restructuring followed: in a few years Rapala sold both the boat and caravan business and acquired the Normark distribution companies in the USA, Canada, the UK, Sweden, Norway, Denmark, Holland and Finland as well as the French company Ragot. In 1991, Rapala started a distribution alliance with Shimano. These changes were followed by a management buy-out, where the management together with some investment bankers bought the company from the family and listed Rapala Normark Oy on the Helsinki Stock Exchange in 1998.

Expansion and Diversification (1998–2005)

In the late 1990's, Rapala bought Storm lures (USA) and a Norwegian distribution company Elbe, established a distribution company in Japan and started to develop a manufacturing unit in Estonia. The French VMC hook business was acquired in 2000 and the Chinese lure manufacturer Willtech in 2001. These deals increased the Group's manufacturing capabilities markedly and made the Viellard family and William Ng important shareholders of Rapala. The distribution network was further expanded to Eastern Europe, Switzerland and Brazil. Simultaneously, the product range was increased to include a wide variety of fishing accessories as well as rods, reels and fishing lines. The Williamson and Guigo big game fishing businesses were acquired in 2004.

Profitable Growth Continues (2005-)

A new era of strong growth started in 2005 when Rapala continued to implement its strategy for profitable growth. In less than a year, the Group acquired or established distribution companies in South Africa, Australia, Malaysia, China, Thailand and Switzerland and bought lure manufacturer Luhr Jensen in the USA, knife manufacturer Marttiini in Finland, fishing line supplier Tortue in France and cross-country ski manufacturer Peltonen in Finland. Thereafter, Rapala has established a lure factory in Russia, a distribution company to Korea, acquired the Terminator spinner bait business in the USA and widened the distribution alliance with Shimano. Simultaneously the Group has developed a large variety of new products and product categories including Rapala Pro Wear clothing, Rapala Vision Gear and new Trigger X attractants that include Ultrabite fish pheromone. With this product offering, distribution network, manufacturing platform and brand portfolio, the Group is well positioned to continue its profitable growth.

Rapala and Year 2007 In Brief

Focus on Fishing Tackle Business

Rapala's business organization can be divided to manufacturing and distribution and, on the other hand, into five different product lines: Lures, Fishing Hooks, Fishing Accessories, Third Party Fishing Products and Other Products. The Group's core business is fishing tackle business, which is represented by four of these product lines.

Rapala is an undisputed market leader in hard-bodied lures, metal lures, treble hooks and fillet knives. Other Products include products, like hunting and winter sports, which fit well into Rapala's distribution network in the Nordic countries and smoothen the seasonality of the fishing tackle business.

Rapala's strategic objective is profitable growth. This strategy is founded on three sub-strategies and established strengths: a unique manufacturing, sourcing and R&D platform including e.g. the world's largest lure factories in Europe and China, a leading global distribution network in the fishing tackle industry and a strong brand portfolio with several leading brands.

Rapala in 2007 – Positive Turnaround in Profitability

Implementation of the Group's strategy for profitable growth continued in 2007 with increasing emphasis on performance improvement initiatives targeting to turnaround the trend of declining profit margins and to further improve the profitability. This turnaround was successfully achieved in 2007.

During 2007, the Group expanded its strategic cooperation with Shimano by establishing distribution joint ventures in Russia, Ukraine and Hungary. Investment in growth continued also by acquiring the Terminator lure business in the USA, establishing a lure assembly factory in Russia and opening a new distribution company in South Korea.

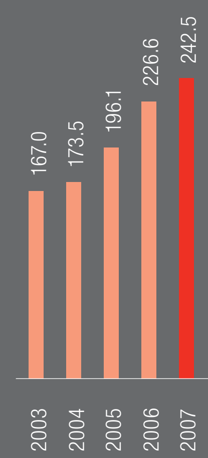
The restructuring of the Group's European lure manufacturing included the downsizing and, in April 2008, closure of the Irish lure factory and move of production volumes from Estonia to the new factory in Russia. The consolidation of all French operation to one location started in 2007. Major changes and improvement initiatives were started also at the Group's manufacturing unit in China.

Investments in growth continued to increase Group net sales, which increased 7% from last year and amounted to EUR 242.5 million. Comparable net sales were up 11% from 2006. Several performance improvement initiatives started also gradually to capitalize and increased the operating profit 30% to EUR 28.3 million. Operating profit margin increased from 9.6% to 11.7%.

The outlook for 2008 is quite positive. Assuming 2007 currency rates, the Group's net sales for the financial year 2008 are expected to increase 8–12%. Possible additional acquisitions during 2008 may further increase the sales. Assuming 2007 currency rates and no nonrecurring items, operating profit margin is expected to improve from 2007.

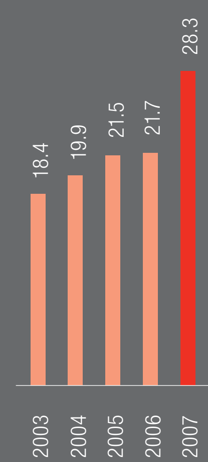
Net sales

EUR million



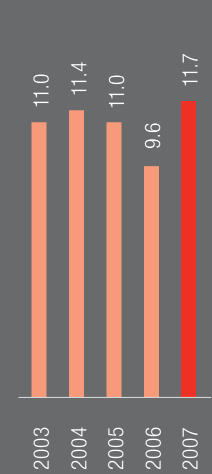
Operating profit

EUR million



Operating profit margin

%



Statement by President and CEO

"We turned around the declining trend in our profit margins and improved our profitability while we continued to grow our business."

Year 2007 was characterized by strong emphasis on performance improvement and cost cutting initiatives. These were executed so that the investment in business development and sales growth was not limited.

Several initiatives were started in 2007 with a target to turnaround the declining trend in our profit margins. The most important ones include the consolidation of our French operations into Morvillars, restructuring of our lure manufacturing in Europe and developing our manufacturing facilities in China. In addition, several smaller initiatives and organizational changes were made in many countries and business units. Work to reduce working capital compared to business volumes continued and started to show results.

Investment in growth continued strong in 2007 and we joined forces with Shimano in East European distribution. With the new distribution joint ventures in Russia, Ukraine and Hungary we will develop our distribution in the fastest growing market area in the fishing tackle business. The further strengthening and widening of our distribution cooperation with Shimano remains one of our key objectives in the future too. We also acquired the Terminator lure business in the USA, established a lure assembly factory in Russia and started a new sales company in South Korea. Organic growth continued strong in many areas.

Great work was done again in product development. We brought a high number of new products to the market and we are ready to introduce excellent new products for the 2009 season. Rapala was again awarded first place in the IGFA lure category for the largest number of record catches in the world during 2007.

Most of our business units improved their performed in 2007 and several new production and sales records were achieved. The net sales for 2007 of EUR 243 million was an all time high for the Group. Operating profit increased relatively more than sales, which means that our profit margins improved in line with our promises. This resulted from our performance improvement initiatives and efficient manufacturing operations while also the benefits of our strong distribution network started to capitalize. Our net result for 2007 reached an all time record at EUR 17.5 million. We will work hard in 2008 to continue this positive development.

The market outlook for 2008 seems quite good despite the general uncertainty especially in the US economy. Based on the several performance improvement initiatives that are being implemented and the good work in our global organization, we expect 2008 to be a continuation of our top line growth and improvement in profitability.

Our share price development has been unfavorable in the past few months due to the recent uncertainties in the global economy and stock markets. Despite this challenging environment, we believe that our operations and performance, supported by our strong brands, organization, distribution network and product offering, will continue to develop positively also in 2008.

Jorma Kasslin
President and CEO

Strategy, Strengths and Priorities

Rapala's vision is to become the global leader in the fishing tackle industry.

This will be achieved through profitable growth.

Strategic Objective

Rapala's strategic objective is profitable growth. This strategy is founded on three sub-strategies and established strengths: a unique manufacturing, sourcing and R&D platform including the world's largest lure factories in Europe and China, a leading global distribution network in the fishing tackle industry and a strong brand portfolio with several leading brands.

Established and Continuously Developed Strengths

The Group's unique manufacturing platform consists of the world's largest lure factory in China, Europe's largest manufacturing facility for lures with specialized factories in Finland, Estonia and Russia, the most advanced treble hook production facility located in France, and high quality knife manufacturing in Finland. Rapala has also developed an extensive sourcing platform and process to ensure high quality but low cost third party manufacturing for its selected products. Rapala's research and development is globally well known and respected for its capability to continuously bring new high quality products with new and exceptional features to meet the fishermen's demanding expectations.

Today Rapala's distribution network covers the four major continents and is locally present in 27 different countries. It allows the Group to introduce new products efficiently and effectively to the market and to build long lasting partnerships and alliances with local retailers and fishermen. On the other hand, the wide distribution network also acts as a channel for market and customer input, which is used for product development. In addition to its own distribution network, the Group also uses external distribution agents in more than 100 countries where the sales volumes are lower than in the core markets. Rapala also has a distribution alliance with Shimano.

In addition to the global leading brand in the fishing tackle industry, Rapala, the Group's brand portfolio consists of several other well known brands like Storm, Luhr Jensen, Blue Fox, Williamson, VMC, Marttiini and Peltonen. The brand for any new product can be chosen from this portfolio to match the targeted market segment or price category.

Focus on Fishing Tackle Business

The Group's core business consists of lures, fishing hooks, fishing accessories and other fishing tackle. Lures are amongst the lowest cost but highest value adding elements of fishing. The consumable nature of lures and some other fishing tackle products leads to a stable replacement market. The fisherman's desire to have a tackle box filled with a wide range of established lures together with new "hot" lures ready for all occasions and circumstances makes the market both attractive and demanding.

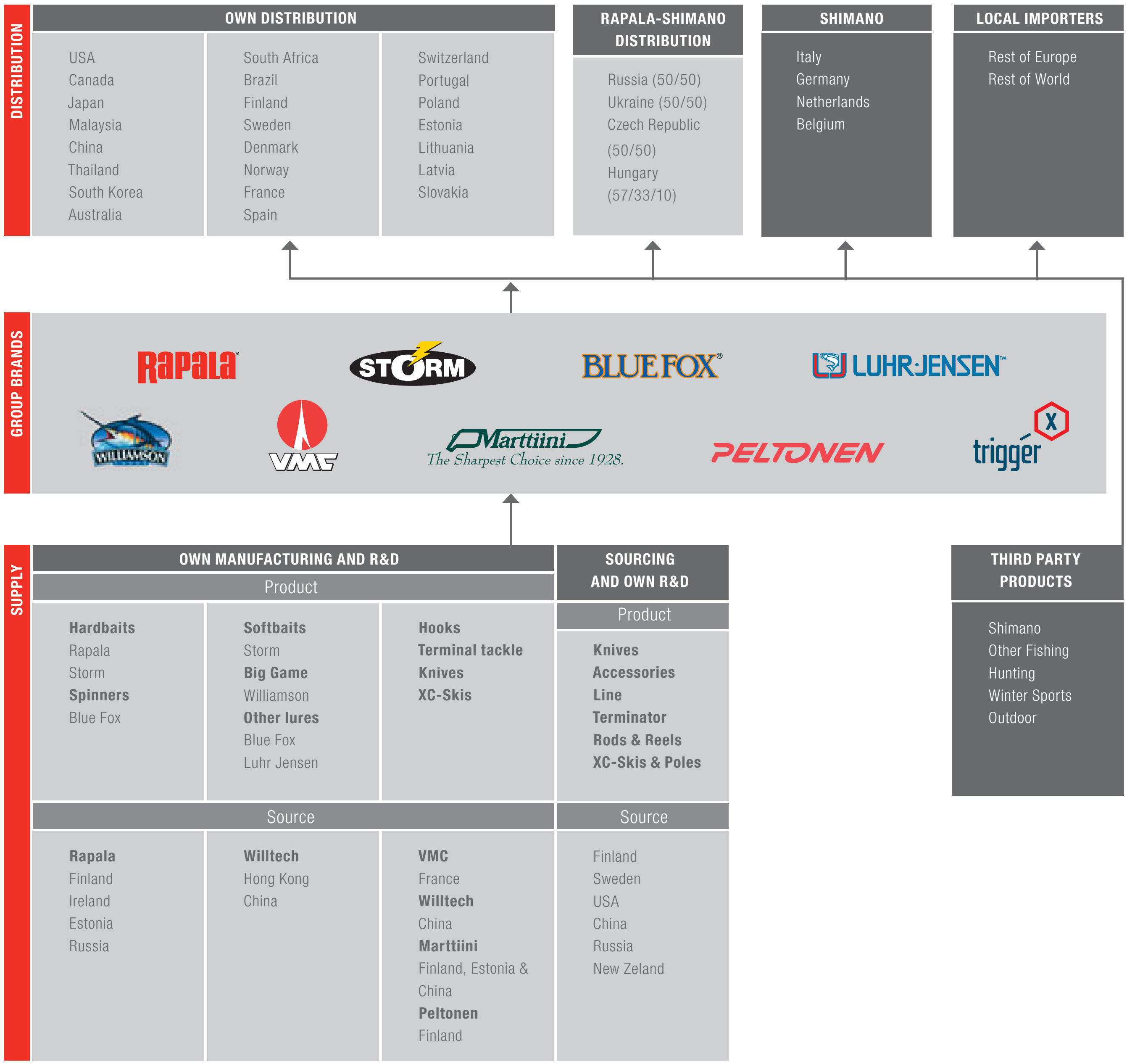
The fishing tackle market is also very high on brand loyalty, which increases the value of well known high quality brands. As a result of the increasing trend for "catch and release", the use of live bait is declining. This has increased and will further increase the demand for high quality lures. One of Rapala's characteristics is that it has developed a unique capability of being both aspirational and affordable to the mass market.

Strategy Implementation in 2007

Implementation of the Group's strategy for profitable growth continued in 2007 with increasing emphasis on performance improvement initiatives targeting to turnaround the trend of declining profit margins. This turnaround was successfully achieved in 2007.

Discussions and negotiations regarding acquisitions and business combinations continued in 2007 to further implement the Group's strategy. These discussions resulted in a major business combination when Rapala and Shimano agreed to establish a 50/50 joint venture in Russia and Ukraine, controlled by Rapala. In Russia, the new joint venture has also started to distribute bicycle parts. South East European distribution center established with Shimano earlier in 2007 in Hungary has already proven to be a success.

Terminator branded spinner bait and lure business was acquired in the USA. Also organic growth continued strong. A lure assembling factory was established in Russia and a new distribution



company in South Korea. Development of organic growth also in terms of new product lines and extensions of current product categories continued.

Several performance improvement initiatives were started in 2007. The consolidation of French operations into Morvillars started and the relocation of distribution unit Ragot was completed. Distribution unit Waterqueen and fishing line supplier Tortue moves are planned for mid-2008 and hook distributor VMC Europe during the third quarter. The plan is also to invest in line spooling facilities in order to further improve operations.

To strengthen the Group's position as the world's leading manufacturer of hard-bodied lures and increase production efficiencies and capacity in Europe, Rapala started the development of its lure manufacturing by establishing a lure assembly factory in Russia. The manufacturing operations in Ireland will discontinue in the end of April 2008. The manufacturing functions of the Irish factory will be taken over by the Group's lure factory in Estonia while a significant part of assembly work is being transferred from Estonia to the new factory in Russia.

Major operational changes and improvements were started also in the Group's manufacturing facility in China with a target to enhance the production efficiencies and shorten the lead time to restore the profitability of the operations that has been burdened by the increased raw material prices and personnel costs.

Organizational changes were made in distribution units with unsatisfactory performance. In addition, the Group introduced and implemented several cost cutting initiatives. Most of these initiatives have been completed and the results have started to materialize gradually.

Hard-bodied and Soft Plastic Lures

Rapala is an undisputed market leader in hard-bodied lures and Storm is one of the leading soft plastic lure brands. The net sales of Fishing Lures, including all Group brands, were some EUR 74 million in 2007 (EUR 73 million in 2006).

"The restructuring and development of our lure manufacturing operations in Europe proceeds with major steps to strengthen the Group's position as the world's leading manufacturer of hard-bodied lures and increase production efficiencies and capacity: a new assembly factory was established in Russia in early 2007 and the Irish lure factory will be closed in April 2008."

Juhani Pehkonen
Head of Fishing Lures

Rapala's lure brands kept their global number one position as the most preferred choice for sport fishermen in 2007. The industry stalwarts, Rapala and Storm, again enjoyed a strong year with highly successful new product launches. Hard baits and soft plastics complimented by metal lures and lures for big game fishing all strengthened their positions in the market. Together, our lure brands cover the fisherman's every need from practical entry level to sophisticated hi-end products.

In 2007, Rapala was once again awarded the first price in the worldwide lure category (largest number of record fish caught) of International Game Fishing Association (IGFA) records for 2006.

X-Rap Conquers the Five Oceans – and More

Six million fishermen cannot be wrong. X-Rap has become the most successful lure launch ever for any fishing tackle company by far. The phenomenal success of X-Rap has further strengthened Rapala's superior position in fresh water fishing and made it a leading, dominant force in salt water fishing, too.

Most lures have their specific purpose or species they are designed for and they do not necessarily perform well outside of their intended use. That is not the case with the versatile Rapala X-Rap. It is a winner for smallmouth bass in the great lakes of US, sea bass in Japan, blue water fishing in Australia and for pike in Finland. X-Rap is a cross-over smash – a number one with a bullet.

"The dream lure of the new millennium" is presently the best selling plastic lure in the world. Its range now comprehensively covers fresh and salt water, every conditions and circumstances you can ever imagine to encounter on the water.

X-Rap family continued to grow in 2007 with new models and size extensions enabling annual sales in pieces to increase 10% from previous year.

Rapala Fresh Water Highlights

Rapala is the original innovator and its innovation started with a wooden lure for more than 70 years ago. Although many of the recent success stories have been accomplished with plastic, Rapala will never forget the special qualities of balsa. The Group will keep on developing the unique material to new heights now and in the future. New balsa concept lure Minnow Rap was another major breakthrough in 2007.

A classic beauty, retro style designed Minnow Rap combines the legendary Shad Rap action with the Original Floater's minnow shape and is ready to rock the fishing world. The 9 cm version became a walleye wonder overnight (not to mention many other species) all around the globe and got a kick start for size extensions for coming years.

With the X-Rap 10 Deep you don't need a big lure to go deep anymore. X-Rap Deep 10 goes down and stays there – though usually not for long before it gets whacked by the hungry predators. Bass, walleye, zander, trout, perch and many other species have had a brief encounter with the first deep diving freshwater X-Rap this season with strong sales everywhere as a consequence.

Rapala Salt Water Highlights

The demons of the deep are now getting deceived by two new X-Rap Magnums; 15 and 20. Four and six meter depth ranges are what the majority of salt water fishermen of the world want to reach – and that's where the new X-Rap Magnums dive. Add the perennial favorite CD Magnum and you'll get salt water ammunition that no other company can offer.

Top water fishing is skyrocketing in popularity, and the reasons are a obvious: to literally see the fish smash a lure on the surface, often jumping, is an adrenaline pumping experience that's hard to beat. The new X-Rap Walk was leading the top water pack in 2007. Armed with highest quality black nickel VMC Sure Set hooks, X-Rap Walk comes with a bullet like castability and stylish X-Rap colors. It proved to be especially popular in tropical fishing.

Storm – From Hard-bodied Lures to Soft Plastics and Hybrids

Originally known for its legendary hard baits, in recent years Storm has also become a major player in soft plastic baits around the world. The brand awareness has never been higher. With the expansion from traditional hard baits and soft plastics to new hybrid categories, Storm offers the most versatile product range on the market.

The world hasn't seen anything like the Scatback before! Giving a new meaning for creature baits, this funny looking but a deadly midget found a tremendous success in 2007 for panfish in the USA and trout and rainbow trout elsewhere, wiping the awards for a best new lure in many major sport fishing.

Taking trout fishing in flowing water to new level, WildEye Minnow 6 Deep became on overnight sensation for one simple reason: its extraordinary ability to catch fish. It stays deep even in fast current and only comes up with a fish.

Probably the best all-around bait in Storm range got a new size in 2007. The new 15 cm long WildEye Minnow is available in two versions: Shallow and Deep.

Storm Goes Hybrid

Another monster hit from Storm in 2007 was the Raz'r Back. The modern, perch shaped Raz'r Back combines the best features of hard bait and soft plastic. Raz'r Back is more durable than any other soft plastic bait, has better swimming action than most of the hard baits and can be cast or trolled with fantastic results.

The grub tails got new standards in 2007 with the arrival of the Storm ProGrubs. In general, the products of this category are usually sold in bulk and for price only but Storm does things differently. The multi-injected, steel mould compressed, ribbed body grubs are probably the most expensive, best looking and best producing soft baits available. To compliment the new ProGrubs, Storm developed matching revolutionary Pro Jig Heads that feature premium VMC hooks and a user-friendly weight control system.

Rapala

X-Rap 12 was the missing link in a comprehensive line of multi-application hard baits. With its introduction for 2007 the X-Rap product range now covers practically every freshwater fishing situation.

STORM

Classic Storm hard baits got a facelift for the season 2007 with the new MadFlash finish. The new look was well received on the market and revived the sales on this category to a new rise.

Products at the first spread.

Big Game and Metal Lures and Attractants

Combined Blue Fox and Luhr Jensen production makes the Group the world's largest manufacturer and distributor of metal lures while Williamson is one of the leading global brands for big game salt water fishing. Trigger X is the new Group brand for the fish attractants that include Ultrabite pheromones.

"Our manufacturing operations in China grew more than 30% in total and the production of metal lures more than doubled in 2007. Our focus is now on development and improvement of production planning and supply chain management."

William Ng
Head of Chinese manufacturing operations
and Hong Kong office

Williamson Big Game Lures

Rapala acquired the big game brand Williamson in 2004 and started to invest heavily in R&D and product design in order to make the famous South African lure brand truly global. The Group's dedicated offshore fishing specialists restructured and upgraded the Williamson product lines. At the same time, production was transferred from South Africa to China. The results of this development work are groundbreaking.

Today, each Williamson product has detailed features like hook locking systems and loop protection, and they incorporate super sharp high quality VMC hooks. The attention to sophisticated design is typical for all Williamson products: small or large trolling lures, metal or lipless baits, teasers or accessories. The Williamson product range consists of 14 product families.

Supported by Rapala's distribution power, the strongest distribution network in the industry, Williamson has become one of the leading global players in big game fishing in a short time with a worldwide brand presence in 32 countries. Major regions are the USA, Europe, Australia, Oceanic Asia and recently also Central America. Thanks to the strong export network, Williamson is available in remote countries such as Fiji, Bahrain or New Caledonia.

The new "Live" series of natural lifelike lures introduced for the 2006 season were a breakthrough in big game fishing, and the series was expanded for the 2007 season with new models.

Blue Fox Metal Lures

Blue Fox is one of the Group's metal brands offering a wide, versatile range of products. The classics like Pixee spoons and Vibrax spinners are used by millions of fishermen every year for salmon and trout fishing while Musky Buck spinners are a must for musky or pike fishing.

More recent innovations like the Double Header or Trout Quiver have found a permanent position in tackle boxes worldwide.

Highlights for the year 2007 were the introduction of the Esox spoons that are designed for pike fishing and the Vibrax Musky Buzz series of surface spinners designed for musky and trophy pike fishing.

Luhr Jensen Hard-bodied and Metal Lures

Hailing from Hood River, Portland, Oregon, Luhr Jensen is a legend in lures and trolling accessories. The company's great tradition of craftsmanship and durable, quality finishes on products like the Crippled Herring, Crocodile, Bangtail and Dipsy Diver need no introduction to salmon, trout or pike fishermen. Luhr Jensen has a huge market share and is the market leader in the North-West of the USA. It dominates salmon fishing but the products are sold successfully all around the world for other applications as well. Luhr Jensen, with in excess of 70 years long history and an excellent reputation, is a good addition to the Group's brand portfolio after its acquisition in 2005.

The brand was re-introduced globally through the Group's distribution network. The integration of the famous salmon brand to Rapala's lure family went even smoother and faster than planned. The production and shipping has been shifted to Rapala manufacturing plants mainly in China without any hiccups. Luhr Jensen has maintained its dominant market share in its traditional market areas in the USA and is rapidly finding its way to new international markets through Group's effective distribution network.

Trigger X Attractants

In 2005, the Group signed a worldwide exclusive distribution agreement for the sport fishing market for a pheromone biotechnology brand called Ultrabite. Re-branded by Rapala as Trigger X, it is a pheromone based fish attractant developed by CEFAS (Centre for Environment, Fisheries and Aquaculture Sciences) governmental laboratories in the UK, which generates natural and irresistible feeding behavior in fish.

The project had a flying start as the Group successfully launched a limited Trigger X product range for the 2007 season. The program includes pheromone based spray and gel to be used on lures and baits for salt water. The response from retail has been extremely positive which is very promising as the Group is planning a wide range of different applications including pheromone assembled soft plastic among other hot categories for the 2008-2009 seasons.

BLUE FOX

Designed specifically to the European pike fishing market, the new Lucius spoon was an instant success all over the intended market area. Great sales and catches created a sound foundation for future size and color extensions.

WILLIAMSON

The exact imitations of live baitfish used in saltwater fishing have been a breakthrough in the big game market. The life-like look and great action of the Williamson Live series have left the need for live bait in history.

LUHR-JENSEN

The international introduction of the Luhr Jensen brand through the Rapala distribution network resulted in an all time sales record for the Luhr Jensen branded products in 2007.

Products at the first spread.

Fishing Hook Business

VMC branded treble hooks are market leaders with a worldwide market share close to 50%. The Group also produces single hooks. The net sales of Fishing Hooks were some EUR 17 million in 2007 (EUR 15 million in 2006).

"Last year sales and profits were an all time record for our hook business and proved that our continuous investment in new technology and innovation enables us to maintain our leadership position in hooks."

Stanislas de Castelnau
Head of Fishing Hooks

The World's Leading Treble Hooks

The Group's fishing hooks are branded VMC, which is the leading treble hook brand, and a market leader with a worldwide market share close to 50%. The VMC range of hooks also includes a wide range of single hooks, which together with the treble hook range are sold to more than 70 countries. One fourth of the manufactured hooks are used within the Group and the rest is sold outside the Group to both lure manufacturers and distributors.

Advanced technology and strong product development are key success factors for VMC hooks. The hook plant in France manufactures large quantities of hooks with a short lead-time, which results in good reactivity, capability for proactivity and high quality. The technological edge is a combination of automated mechanical forming, heat treatment of steel and chemical finishing with electroplating. Successful innovations as well as value adding key customer partnerships in product development and high quality customer service are a major strength in the Group fishing hook business, and have contributed to VMC's position as the market leader.

A Short History of VMC Hooks

The family firm of Viellard, Migeon and Company, established in 1796, started to produce fishing hooks in France in 1910. At that time, each hook was individually hand crafted. The first automatic treble hook machine was introduced in 1974, increasing the daily production volumes from 5 000 hooks a day to 60 000 hooks. This development was followed by international expansion, which led to VMC treble hooks becoming a market leader in 1990's. In 2000, VMC was acquired by and merged with Rapala. Today, the production capacity is some 3 million hooks a day.

New Products and Development in 2007

The Spark Point technology developed by VMC has set up new standards for hook sharpness among fishermen. After the development of this range first for predators, four new Spark Point hooks designed for carp and dorado fishing techniques were successfully introduced in the market in 2007.

The worldwide experience of VMC enabled it to offer specific products designed in the USA for European markets, too: a large program of colorful jig-heads mounted on VMC hooks was launched both in the USA and Europe with excellent sales figures in the first year of distribution.

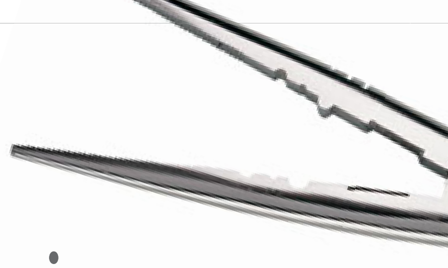
The fishing hook distribution for US market was also restructured during 2007 to be effective from the beginning of 2008: VMC Inc., who previously was responsible for all hook distribution, now focuses on OEM customers while Rapala USA is responsible for the retail side of the business.

New Products and Development in 2008

In 2008, the development focus of VMC will be on new production capacity: the electroplating lines for tin and nickel will be lengthened and more treble hook machines will be built to increase the capacity at the Morvillars factory. Advance technology and innovations will allow VMC also to offer new ranges of products including Drop Shot single hooks and Tropic Spark Point treble hooks.

In 2007, VMC hooks reached their all time sales record.

Products at the first spread.



Fishing Accessories Business

Rapala takes advantage of its strong brands and established supply chain by expanding its product selection beyond lures and fishing hooks. Rapala has a comprehensive selection of accessories, out of which the most important are the fillet knives, fishing tools, fishing lines, fishing clothing, bags and sunglasses. The net sales of Accessories were some EUR 44 million in 2007 (EUR 46 million in 2006).

"Rapala's functional and practical accessories like knives, tools, fishing lines, sun glasses and fishing clothing improve the fishing experience and increases catches around the world."

Lars Ollberg
Sales and Marketing Director for Fishing Accessories

"We celebrate the 80th anniversary of Marttiini knives in 2008. The successful cooperation with Rapala in fishing knives has also lasted already for 40 years."

Päivi Ohvo
Managing Director of Marttiini

Well Known and Successful Brands

Rapala designs all the products sold under its own brands. Rapala manufactures them in its own factories or outsources them to specially selected subcontractors. All Group accessories are innovative and represent functional design and high quality. Rapala's accessories are sold in more than 70 countries.

Fillet Knives

Rapala fillet knives are market leaders in all the main sport fishing markets. Over 38 million Rapala fillet knives have been sold since 1967.

Fishing Tools

Each Rapala fishing tool is tailor made for a specific purpose. Rapala does not manufacture for third party distributors; all its fishing tool products are sold under the Rapala trademark. The new tri-lingual multicolor package successfully communicates the products' technical features.

Fishing Lines

Rapala's internationally recognized monofilament and braided lines are well known in the major fishing line markets. Rapala gives a strength guarantee with all its lines. All Rapala lines are manufactured by selected contract.

Pro Wear Clothing

The Rapala Pro Wear clothing collection covers all climates from tropical to Nordic. The collection is sold in many countries since 2005 where it has received a great reception.

Fisherman's Sunglasses

The sunglasses sold under the Rapala Vision Gear brand gain more market share each year. Their optical quality, design and practical packaging fulfill the fishermen's needs and demands. Group branded sunglasses were first sold to the fishing tackle market in 2006.

New Achievements in 2007

The business of Marttiini developed successfully during 2007. Operations were rationalized and focused: all wood processing was moved to the factory in Rovaniemi while all Marttiini's leather sheaths are manufactured in Marttiini's Estonian factory. Marttiini manufactured Rapala branded knife selection is packed and supplied to distribution companies and customers from Estonia.

The operations of the Chinese knife factory were streamlined and production capacity increased. The sales of Rapala's Chinese produced knife increased by over 50% during 2007. The future prospects for the new folding knives are good.

The latest Rapala console game, Rapala Tournament Fishing, has gained huge popularity. In 2007, the game was launched for the Nintendo Wii platform. All Rapala console games are made under a license agreement with Activision Inc, one of the leading game manufacturers in the world.

Both Rapala Vision Gear and Rapala Bags doubled their sales during 2007.

In 2007, Rapala accessories' packaging and appearance had a face lift. The product line's look is now uniform and easy to recognize. The visibility of the Rapala brand within the retail stores was increased by introducing new displays for sales and product presentation.

The majority of the Group's accessory sourcing is managed by Rapala Guangzhou sourcing office in China.

Work on supply chain management continued in 2007 and the lead times for many products shortened. In addition,

a supply agreement was signed with the Finnish Logonet Oy for the design, production and logistics of Rapala Pro Wear garments.

New Products for 2008

Functional fishing nets and scales are important additions to the Rapala's fishing tool selection for 2008.

Five new higher price point fillet knives and three new electric fillet knives were introduced. These products are especially designed for the US markets.

The Rapala Vision Gear product line was reinforced by the new Angler series. These polarized fishing sunglasses feature both high quality and competitive prices.

The Rapala Pro Wear collection was strengthened by the addition of waterproof and windproof jackets and trousers.

A value priced Rapala Sportsman's series and three new higher price point Rapala Limited Edition bags were launched for the 2008 season.

Rapala ProWear

High quality materials, innovative pocket solutions, practicality and modern look combined with competitive pricing made the Rapala Pro Wear Shallows fishing vest a prime example of the Rapala 2007 clothing collection.

Rapala

Marttiini
The Sharpest Choice since 1928.

The Rapala Witch's Tooth Collector Fillet knife, hand made by Marttiini, was sold out in record time despite its high price point.

Products at the first spread.

Third Party Fishing Products

In addition to the Group branded fishing products, Rapala also distributes third party products for sport fishing.

The net sales of Third Party Fishing Products were some EUR 63 million in 2007 (EUR 54 million in 2006).

"Increasing number of fishermen uses fishing electronics like fish finders and electronic outboard motors to improve their fishing experience."

Hannu Murtonen,
Head of Distribution in Eastern and Northern Europe

"Shimano rods and reels are best of the class and a very important addition to our product range."

Janne Paukkunen
Head of Distribution in Spain, Portugal and Brazil

Shimano Rods and Reels

Since 1993, the Group has distributed Shimano rods and reels. In 2007, this distribution covered 22 European countries and South Africa. Shimano is one of the leading global brands in this product category. In its turn, Shimano distributes Rapala branded products in 4 countries in Europe. This European distribution co-operation has lasted for 14 years.

As of January 2007, Rapala's Hungarian distribution company, Rapala Eurohold, became a South East European distribution center of Rapala and Shimano products for Hungary, Romania, Bulgaria, Slovenia, Croatia, Bosnia, Serbia, Macedonia and Albania. In April 2007, Rapala and Shimano strengthened their distribution alliance in Hungary and South-East Europe when Shimano subscribed a 33.4% shareholding in Rapala Eurohold.

In October 2007, Rapala and Shimano decided to strengthen their distribution alliance in Russia and Ukraine by establishing a 50/50 joint venture company in Finland, controlled by Rapala. This joint venture company, Rapala Shimano East Europe Oy, will acquire existing Rapala distribution companies in both of these countries. As a result of the new joint venture, these distribution companies will start to distribute, in addition to their current product offering, Shimano reels, rods and other Shimano fishing tackle products on exclusive basis. Distribution of Shimano products started in Russia in December and in Ukraine in the beginning of year 2008.

Fishing Electronics and Other Products

Rapala distributes several non-Group fishing tackle brands, especially through the newly acquired distribution companies. In addition, Rapala distributes fishing related third party products and equipment that it does not have in its own product portfolio. These include fish finders (Humminbird), tackle boxes (Plano), down riggers (Cannon) and electric outboard motors (Minn Kota). The Group also distributes some non-Group branded baits and attractants.


MN5423KB

Hunting, Winter Sports and Outdoor

Rapala also produces cross country skis and some other non-core products to compliment the seasonality of its core business. In addition to fishing products, Rapala also distributes third party products for hunting, outdoor and winter sports. The net sales of Other Products were some EUR 48 million in 2007 (EUR 42 million in 2006).

Hunting

Hunting, as well as winter sports, plays an important role in the Group distribution business in the Nordic countries where the fishing tackle business is very slow in the autumn and the winter. The Group has distributed hunting products since the 1960's and is today one of the leading distributors of hunting products in the Nordic countries.

The most important hunting products and brands distributed by Rapala are rifles and shotguns (Beretta, Franchi, Remington, Escort, Blaser, Winchester, Mauser, Tikka, Sako and CZ), ammunition (Norma, Winchester, CCI and Remington), cartridges (Eley Hawk, Rottweil and Gyttorp), optics (Leica, Bushnell, Schmidt & Bender and Tasco), clothing (Geoff Anderson, Blaser and Beretta) and hunting related accessories (Nordic Hunter). The Group branded hunting products (Marttiini, Wild Game and Normark) include hunting knives, clothing and other hunting related accessories.

Winter Sports

Rapala has distributed winter sport equipment in Finland since 1999 and started this business in Norway in 2005. The most important winter sports products and brands are cross country skis (Peltonen), ski poles (Rex), ski wax (Rex), bindings (Rottefella) and cross country ski boots (Alpina).

The Peltonen brand has been owned by Rapala since 2002. In 2005, the Group increased its shareholding in the ski manufacturer Peltonen Ski Oy from 19% to 80% to secure and develop the distribution of Peltonen products. Prior to the acquisition, Rapala was a significant customer to Peltonen buying some 50% of Peltonen Ski Oy's production. In addition to the manufacture of skis in the Hartola factory in Finland, Peltonen also sources lower priced models from other ski manufacturers. Peltonen is one of the leading brands in cross country skis, enjoying a 30% market share in Finland and a notable share in other key distribution markets. The most important export markets are Norway, Germany, Russia and France.

Outdoor

Rapala is also an important distributor of some other non-Group branded outdoor products and equipment. The most important outdoor products and brands distributed are GPS units (Magellan), hiking and trekking products (Vaude and Tuckland) and sports optics (Leica, Bushnell, Tasco). The Group branded outdoor products (Marttiini, Wild Game, TermoSwed and Normark) includes knives, backpacks, underwear and boots.

Other Products

To utilize its manufacturing capabilities and compensate for the seasonality of the core business, the Group also produces some other products mainly as a contract manufacturer for the consumer and electronics industry. In addition to fishing products, Rapala's factory in China manufactures gift products that can be produced with the same machinery and equipment as fishing tackle.

As a result of the new joint venture established with Shimano, the distribution company in Russia distributes also Shimano bicycle parts as from December 2007.

PELTONEN

"Distribution of winter sports equipment reduces the effects of seasonality in our fishing tackle business and fits well into our distribution system and supply chain."

Saku Kulmala
Head of Distribution in Finland

"Rapala is one of the leading distributors of hunting and sport shooting products in the Nordic countries with some of the strongest brands in the industry."

Nils Larsen
Head of Distribution in Denmark

"Outdoor products like tents, sleeping bags, backpacks and tracking shoes are a good addition to our product offering for the same customer segment as most of our other products."

Matts Baum
Head of Distribution in Sweden

"Manufacturing of gift products was started few years ago to balance the seasonality of the fishing tackle production and has gradually developed to a financially sound standalone business."

Cynthia Foong
Business Manager of Gift Products

Review of the Board of Directors

Market Situation and Sales

The general conditions in the fishing tackle market were quite good in 2007. Due to normal weather conditions, the peak season for fishing tackle business started somewhat earlier than in 2006, when the summer season was clearly late. On the other hand, the season also ended earlier in 2007. Market growth was strongest in East Europe, South Africa, Australia and Asia. In West Europe and North America, the trading conditions remained quite stable even if US markets suffered somewhat from the weak dollar.

Year 2007 was characterized by strong emphasis on performance improvement and cost cutting initiatives in the Group. These were though executed so that the investment in business development and sales growth was not limited.

The seasonality of the fishing tackle business has been reduced during the last few years by expanding the Group's operations in southern hemisphere and closer to equator by acquisitions, start-ups and expanding existing operations. Even if almost 50% of the sales is generated during the second half of the year, more than 80% of the operating profit was still generated in the first six month of 2007.

Net sales were up 7% from last year and amounted to EUR 242.5 million (EUR 226.6 million). Almost 90% of the growth was organic. This increase came from all geographical segments except North America. Weakening of the US dollar reduced North American sales by EUR 5.8 million. With comparable exchange rates, Group's net sales were up 11% and North American up 4%.

All product lines except Accessories increased their sales and Fishing Hooks made their all time sales record: lure sales were up 1%, fishing hooks 14%, third party fishing products 19% and other products 13%. For more detailed segment information see the note 2 to the consolidated financial statements.

Financial Results and Profitability

Operating profit for 2007 was up 30% and reached EUR 28.3 million (EUR 21.7 million). Also operating profit margin increased and amounted to 11.7% (9.6%). Return on capital employed reached a good level at 15.9% (12.3%).

Operating profit included several non-recurring items of which the largest resulted from the sale of 50% of the new distribution joint-venture to Shimano (EUR +4.9 million), the consolidation of French operations (EUR -2.5 million), closing of Irish lure factory (EUR -1.1 million) and negative goodwill from the acquisition of Terminator business (EUR +1.0 million). The net of other non-recurring items was EUR -0.7 million (EUR -0.4 million).

The operating profit was negatively affected by weakening of US dollar and some other currencies (EUR 1.6 million) as well as increase of raw material prices and personnel costs especially in China. On the other hand, the first result of several performance improvement initiatives started to gradually capitalize during the second half of the year. Also the increase of Group products sold in 2007 improved the result. The result of currency hedges booked in financial items was EUR +1.0 million (EUR +0.3 million). For more information on management of financial risks see the note 22 to the consolidated financial statements.

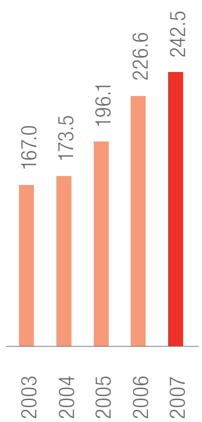
Comparable operating profit margin, excluding non-recurring items and using 2006 exchange rates, improved clearly and reached 11.2% (9.8%). This was a major turnaround and stopped the trend of declining profit margins.

All geographical segments except Rest of Europe increased their operating profit. The result in Rest of Europe was down due to restructuring provisions in France, Ireland and few other countries. The result in Nordic includes the gain

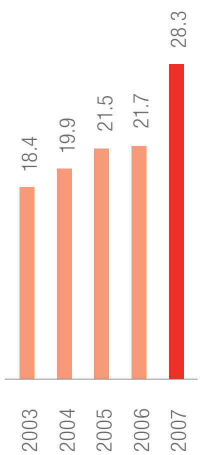
KEY FIGURES

EUR million	2007	2006	2005
Net sales	242.5	226.6	196.1
EBITDA	33.8	28.0	26.3
Operating profit (EBIT)	28.3	21.7	21.5
Profit before taxes	23.3	14.6	18.6
Net profit for the period	17.5	11.0	14.0
Net cash generated from operating activities	18.2	10.0	12.1
Total net cash used in investing activities	-3.7	-14.7	-16.2
Net interest-bearing debt at the end of the period	80.2	99.3	95.9
Equity-to-assets ratio at the end of the period, %	38.2	33.4	33.1
Debt-to-equity ratio (gearing) at the end of the period, %	82.8	122.2	127.1
Employee benefit expenses	-65.0	-54.1	-47.0
Average personnel for the period	4 577	3 987	3 780
Research and development expenses	1.6	1.2	0.7
as a percentage of net sales, %	0.7	0.5	0.4

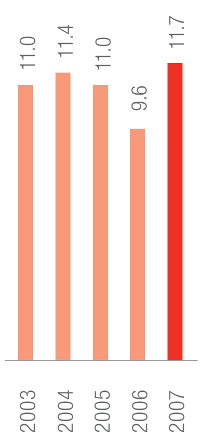
Net sales
EUR million



Operating profit
EUR million



Operating profit margin
%



from the sale of 50% of the new distribution joint venture. For more detailed segment information see the note 2 to the consolidated financial statements.

Financial expenses were above previous year level as a result of increased average interest rates. Net result for 2007 was up 59% and reached an all time record EUR 17.5 million (EUR 11.0 million). Also earning per share increased to the highest level ever at EUR 0.45 (EUR 0.28). For more share related and other key figures for 2003-2007 see pages 71 and 72.

Cash Flow and Financial Position

Cash flow from operating activities was up 82% from last year and amounted to EUR 18.2 million (EUR 10.0 million). Work to reduce working capital compared to business volumes continued and started to show results. Even if business volumes increased, the Group was able to reduce working capital to EUR 96.7 million (EUR 97.8 million). In 2007, working capital (end of the year) to net sales was 40% (43%) excluding the start-up inventories bought from Shimano in the end of 2007 for the new distribution joint-venture.

Net cash used in investing activities amounted to EUR 3.7 million (EUR 14.7 million) including capital expenditure of EUR 9.9 million (EUR 15.5 million). This includes the acquisition of Terminator lure business, second installment of the Freetime acquisition closed in 2005 and the final payment of the Guigo acquisition closed in 2004. The total purchase price for acquisitions closed in 2007 is EUR 2.1 million of which EUR 2.7 million is allocated to working capital, EUR 0.9 million to fixed assets, EUR 0.5 million to liabilities and the difference is booked as negative goodwill. Proceeds from sales of assets and disposal of subsidiary shares totaled EUR 6.3 million. This includes the sale of 50% of the new distribution joint-venture to Shimano (EUR 5.0 million) and a number of smaller disposals. For more detailed information on acquisitions and disposals see the note 3 to the consolidated financial statements.

As part of the strengthening of the long-term distribution alliance, Rapala issued 889 680 new shares to Shimano in October for the subscription price of EUR 5.62 per share, which represented a three-month weighted average trading price for the share. These new shares will not give right to dividend paid from the financial year 2007 and they have a lock-up period of 12 months. The total proceed from this share subscription was EUR 5 million. For more detailed information on shareholders, shareholder agreement, shares, options, board authorizations and corporate governance, see the sections "Shares and Shareholders" and "Corporate Governance" attached to the consolidated financial statements. Transactions with related parties are disclosed in the note 28 to the consolidated financial statements.

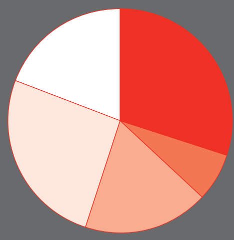
Net interest-bearing debt decreased strongly to EUR 80.2 million (EUR 99.3 million) as a result of positive cash flow and asset disposals. Improved profitability and cash flow increased the equity-to-asset ratio to 38.2% (33.4%). Gearing decreased to a historically low 82.8% (122.2%). Group's liquidity has never been better since it went public in 1998.

Strategy Implementation - Growth

Management continued discussions and negotiations regarding acquisitions and business combinations throughout the year to further implement the Group's strategy for profitable growth.

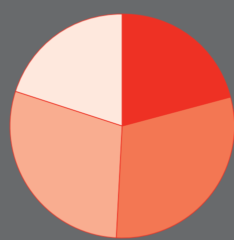
These discussions resulted in a major business combination when Rapala and Shimano agreed to join forces in East European distribution. Rapala has consistently aimed at developing and deepening its fishing tackle distribution alliance with Shimano. South East European distribution center established with Shimano earlier in 2007 in Hungary has already proven to be a success. The latest addition to this cooperation between Rapala and Shimano was announced in October, when the companies decided to establish a joint venture company to manage and develop their distribution in the fastest growing market area in the fishing tackle business including Russia and Ukraine. This transaction was completed in December and the joint venture company, Rapala Shi-

NET SALES BY PRODUCT LINE



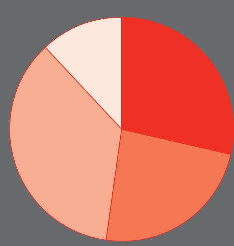
Lures	30%
Fishing Hooks	7%
Fishing Accessories	18%
Third Party Fishing Products	26%
Other Products	19%

NET SALES BY UNIT LOCATION



North America	21%
Nordic	30%
Rest of Europe	29%
Rest of the World	20%

NET SALES BY MARKET AREA



North America	29%
Nordic	24%
Rest of Europe	36%
Rest of the World	12%

mano East Europe Oy, is owned 50/50 by the parties and controlled by Rapala. In 2008, this joint venture is expected to increase Rapala's net sales more than EUR 10 million. After this expansion of distribution alliance with Shimano, Rapala distributes Shimano rods and reels in South Africa and in 22 countries in Europe. In Russia, the new joint venture will also distribute bicycle parts.

In January 2007, Terminator branded spinner bait and lure business was acquired in the USA. Terminator is number two in the US spinner bait market with annual sales of some EUR 2 million. Currently these lures are manufactured in a subcontract facility in Mexico but the production is planned to be transferred later to Rapala's factory in China.

Also organic growth continued strong. A lure assembling factory was established in Russia and a new distribution company in South Korea. The sales growth especially in Eastern Europe, Asia, Australia and South Africa continued strong. Development of organic growth also in terms of new product lines, extensions of current product categories as well as special marketing, sales and brand initiatives continued. Both the market coverage and the product portfolio were expanded and the Group's position in current markets and product categories was strengthened. New products for 2008 season were finalized and introduced to distribution channels. The deliveries of these new products started in the last quarter of 2007 and they have reached or are about to reach the retail stores by now.

Strategy Implementation - Profitability

In addition to negotiations regarding acquisitions and business combinations and development of new products and organic growth, the emphasis on performance improvement initiatives was strengthened with the target to turn around the declining trend in operating profit margin and to further improve the Group's profitability.

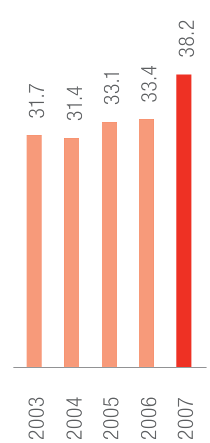
The plan to consolidate Group's French operation into Morvillars was published in June. This restructure will affect some 90 persons in France, who were all offered work in the new location. Most of the personnel did not want to move and the recruitment of new people started in the fourth quarter. The relocation of distribution unit Ragot has now been completed. Distribution unit Waterqueen and fishing line supplier Tortue moves are planned for mid-2008 and hook distributor VMC Europe during the third quarter. The total investment in the new distribution centre is EUR 0.5 million. The plan is also to invest EUR 0.4 million in line spooling facilities in order to further improve operations. After all relocations have been made and the new organization is up and running, the annual savings are expected to reach EUR 1-2 million. These savings will start to materialize from the latter half of 2008 onwards and full effect will be seen in 2009.

To strengthen the Group's position as the world's leading manufacturer of hard-bodied lures and increase production efficiencies and capacity, Rapala started the restructuring and development of its lure manufacturing operations in Europe in early 2007 by establishing a lure assembly factory in Russia. In December, the plan to close the lure factory in Ireland was published. The manufacturing operations in Ireland will discontinue in the end of April 2008. The average number of personnel in the Irish factory has been declining in the last few years and was some 20 persons at the end of 2007. The manufacturing functions of the Irish factory will be taken over by the Group's lure factory in Estonia that will continue finalizing, testing and packaging the products. At the same time, significant part of assembly work is being transferred from Estonia to the new factory in Russia, which currently employs some 50 persons. After the closing of the Irish factory and transfer of its duties to the Estonian factory, the annual savings are expected to reach some EUR 0.7 million.

During 2007, major operational changes and improvements were started also in the Group's manufacturing facility in China. This development project is supported by an international team of professionals and the target is to enhance the production efficiencies and shorten the lead time to restore the profitability of the operations that has been

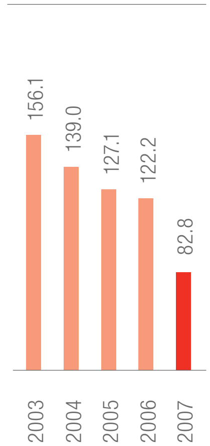
Equity-to-assets ratio

%



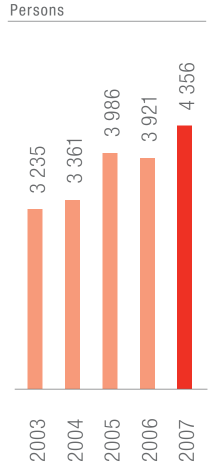
Debt-to-equity ratio (gearing)

%



Personnel at the end of the period

Persons



MANAGEMENT ANALYSIS

EUR million	2007	2006
Net sales as reported	242.5	226.6
Foreign exchange effects	10.0	
Comparable net sales	252.5	226.6
Operating profit as reported	28.3	21.7
Non-recurring items (net)	-1.6	0.4
Foreign exchange effects	1.6	
Comparable operating profit	28.3	22.1
Operating (profit) margin as reported, %	11.7	9.6
Comparable operating margin, %	11.2	9.8

burdened by the increased raw material prices and personnel costs. The first results of this project started to capitalize during the last quarter of 2007 but the full benefits are expected to materialize later in 2008 when the new production planning system and related new processes are implemented.

The South East European distribution center established with Shimano earlier in 2007 in Hungary has already proven to be a success not only regarding sales growth but also profitability.

Also few organizational changes have been made in distribution units with unsatisfactory performance. In addition, the Group has introduced and implemented several cost cutting initiatives. Most of these initiatives have been completed and the results have started to materialize gradually. The full impact of these will be seen from the beginning of 2008 onwards.

Personnel and R&D

Number of personnel increased 11% during the year and was 4 356 (3 921) at the year end. The average number of personnel increased to 4 577 (3 987). Largest increases were in China and Russia. For more detailed information on personnel see note 7 to the consolidated financial statements.

Research and development expenses increased to EUR 1.6 million (EUR 1.2 million) in 2007.

Risk Management and Environmental Affairs

The Group principles for risk management and environmental affairs were confirmed during 2007. These principles as well as the work done and progress made in these areas are described in the sections “Risk Management” and “Environmental Affairs” attached to the consolidated financial statements.

Outlook for 2008

The outlook for 2008 is quite good. No major changes in the competition of fishing tackle market are expected. The general uncertainty especially in the US economy is not expected to have a significant effect on Group sales in 2008. It is expected that the Group’s net sales for the financial year 2008 will increase 8-12% assuming 2007 exchange rates. Possible new acquisitions during 2008 would further increase the sales.

Special initiatives started during 2007 to further improve Group’s profitability are gradually starting to capitalize during 2008. In addition, prices have been increased in several markets to compensate for recent cost increases. Business development and start-up costs are expected to remain on 2007 levels while new initiatives are planned and implemented. Assuming 2007 exchange rates and excluding non-recurring items, operating profit margin is expected to improve in 2008 compared to 2007.

In the end of 2007, order backlog was close to last year levels at EUR 35.2 million (EUR 35.8 million).

In January 2008, Rapala signed a sale agreement for the warehouse and office building in Saint Marcel as part of the consolidation of operations in France and will book a capital gain of some EUR 0.9 million in the first quarter of 2008. The plan is also to sell the warehouse and office building in Loudeac in 2008.

Negotiations and discussions for new acquisitions and business combinations continue while new products and applications are being planned and developed. New products for 2009 season have just been finalized and they will be introduced to the distributors within the next few months. Reduction of working capital compared to business volume and improvement of cash flow remain an important target also in 2008.

Proposal for Profit Distribution

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.18 for 2007 (EUR 0.12) per share be paid from the Group’s distributable funds and that any remaining distributable funds be allocated to retained earnings. At December 31, 2007, the parent company’s distributable earnings totaled EUR 54.2 million.

No material changes have taken place in the Group’s financial position after the end of the financial year 2007. Group’s liquidity is good and the view of the Board of Directors is that the distribution of the proposed dividend will not undermine this liquidity.

Helsinki, February 5, 2008

Board of Directors of
Rapala VMC Corporation

Auditors´ Report

To the Shareholders of Rapala VMC Corporation

We have audited the accounting records, the review of the Board of Directors, the financial statements and the administration of Rapala VMC Corporation for the 12-month period ended 31 December 2007. The Board of Directors and the Managing Director have prepared the consolidated financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, as well as the review of the Board of Directors and the parent company's financial statements, prepared in accordance with prevailing regulations in Finland, containing the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements. Based on our audit, we express an opinion on the consolidated financial statements, as well as on the review of the Board of Directors, the parent company's financial statements and the administration.

We conducted our audit in accordance with Finnish Standards on Auditing. Those standards require that we perform the audit to obtain reasonable assurance about whether the review of the Board of Directors and the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the report and in the financial statements, assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. The purpose of our audit of the administration is to examine whether the members of the Board of Directors and the Managing Director of the parent company have complied with the rules of the Companies Act.

Consolidated Financial Statements

In our opinion the consolidated financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view, as defined in those standards and in the Finnish Accounting Act, of the consolidated results of operations as well as of the financial position.

Parent Company's Financial Statements, Review of the Board of Directors and Administration

In our opinion the parent company's financial statements have been prepared in accordance with the Finnish Accounting Act and other applicable Finnish rules and regulations. The parent company's financial statements give a true and fair view of the parent company's result of operations and of the financial position.

In our opinion the review of the Board of Directors has been prepared in accordance with the Finnish Accounting Act and other applicable Finnish rules and regulations. The review of the Board of Directors is consistent with the consolidated financial statements and the parent company's financial statements and gives a true and fair view, as defined in the Finnish Accounting Act, of the result of operations and of the financial position.

The consolidated financial statements and the parent company's financial statements can be adopted and the members of the Board of Directors and the Managing Director of the parent company can be discharged from liability for the period audited by us. The proposal by the Board of Directors regarding the disposal of distributable funds is in compliance with the Companies Act.

Helsinki, 21 February 2008

Ernst & Young Oy
Authorized Public Accountant Firm

Juha Nenonen
Authorized Public Accountant

CONSOLIDATED FINANCIAL STATEMENT, IFRS

CONSOLIDATED INCOME STATEMENT

EUR million	Note	2007	2006
Net sales	2	242.5	226.6
Other operating income	4	6.7	1.5
Change in inventory of finished products and work in progress		12.7	1.1
Production for own use		0.1	0.5
Materials and services	6	-114.9	-99.5
Employee benefit expenses	7	-65.0	-54.1
Other operating expenses	5	-48.3	-48.1
Operating profit before depreciation and impairments		33.8	28.0
Depreciation and impairments	8	-5.4	-6.3
Operating profit		28.3	21.7
Financial income	10	4.6	5,7
Financial expenses	10	-9.6	-12.1
Share of results in associated companies	14	0.0	0.0
Profit before taxes		23.3	14.6
Income taxes	11	-5.8	-3.6
Net profit for the period		17.5	11.0
Attributable to			
Equity holders of the Company		17.3	10.8
Minority interest		0.2	0.2
Earnings per share	30		
Earnings per share, EUR		0.45	0.28
Diluted earnings per share, EUR		0.45	0.28
Weighted average number of shares, 1000 shares		38 781	38 565
Diluted weighted average number of shares, 1000 shares		38 781	38 609

CONSOLIDATED BALANCE SHEET

EUR million	Note	2007	2006
ASSETS			
Non-current assets			
Goodwill	13	43.4	45.4
Other intangible assets	13	7.7	7.9
Land	12	1.7	1.9
Buildings	12	8.1	9.4
Machinery and equipment	12	12.9	13.4
Other tangible assets	12	4.8	4.1
Advance payments and construction in progress	12	0.9	0.6
Investment in associated companies	14	0.0	0.0
Available-for-sale investments	15	0.6	0.6
Interest-bearing receivables	17	0.0	0.0
Non-interest-bearing receivables	17	0.1	0.0
Deferred tax assets	11	8.0	6.3
Total non-current assets		88.1	89.6
Current assets			
Inventories	16	84.3	73.0
Trade and other non-interest-bearing receivables	17	52.2	52.6
Income tax receivable		0.7	3.9
Interest-bearing receivables	17	0.1	0.2
Cash and cash equivalents	18	27.3	24.4
Total current assets		164.6	154.0
Assets classified as held-for-sale	12	0.9	
Total assets		253.7	243.6

EUR million	Note	2007	2006
SHAREHOLDERS' EQUITY AND LIABILITIES			
Equity			
Share capital		3.6	3.5
Share premium fund		16.7	16.7
Fair value reserve		0.0	0.1
Fund for invested non-restricted equity		4.9	
Retained earnings		53.6	49.7
Net income for the period		17.3	10.8
Equity attributable to equity holders of the Company		96.0	80.7
Minority interest		0.9	0.6
Total equity	19	96.9	81.3
Non-current liabilities			
Interest-bearing liabilities	24	49.8	64.6
Employee benefit obligations	20	0.7	0.7
Option programs to be settled in cash	29	0.4	0.0
Deferred tax liabilities	11	5.3	4.9
Provisions	21	0.1	0.9
Derivatives	22,24	0.0	
Total non-current liabilities		56.3	71.1
Current liabilities			
Interest-bearing liabilities	24	58.3	59.9
Trade and other non-interest-bearing payables	25	37.0	28.1
Income tax payable		1.8	2.1
Provisions	21	3.2	1.1
Derivatives	22,24	0.1	0.0
Total current liabilities		100.5	91.2
Total shareholders' equity and liabilities		253.7	243.6

CONSOLIDATED CASH FLOW STATEMENT

EUR million	Note	2007	2006
Net profit for the period		17.5	11.0
Adjustments			
Income taxes	11	5.8	3.6
Financial income and expenses	10	5.0	7.1
Reversal of non-cash items			
Depreciation and impairments	8	5.4	6.3
Option programs to be settled in shares	7, 29	0.4	0.9
Exchange rate differences	10	0.2	1.7
Share of results in associated companies	14	0.0	0.0
Gains/losses on disposals of intangible, tangible assets and subsidiaries		-5.3	0.1
Change in provisions and employee benefits		3.3	0.0
Other items			-0.4
Interest paid		-6.7	-5.6
Interest received		1.0	0.6
Income taxes paid		-5.6	-6.2
Other financial items, net		0.2	-0.9
Total adjustments		3.7	7.1
Change in working capital			
Change in receivables		-1.0	-13.2
Change in inventories		-12.1	-2.1
Change in liabilities		10.0	7.1
Total change in working capital		-3.1	-8.1
Net cash generated from operating activities		18.2	10.0
Net cash used in investing activities			
Acquisition of intangible assets	13	-0.2	-0.3
Proceeds from sale of tangible assets	12	0.4	0.6
Acquisition of tangible assets	12	-7.0	-6.9
Acquisition of available-for-sale investments	15	0.0	0.0
Acquisition of subsidiaries, net of cash	3	-2.7	-8.3
Proceeds from disposal of subsidiaries, net of cash	3	5.9	
Change in interest-bearing receivables		-0.2	0.2
Total net cash used in investing activities		-3.7	-14.7
Net cash generated from financing activities			
Dividends paid		-4.6	-4.2
Proceeds from share subscriptions		5.0	0.4
Non-current loan withdrawals		0.1	69.6
Current loan withdrawals		16.9	37.8
Non-current loan repayments		-0.8	-58.3
Current loan repayments		-27.5	-34.4
Payment of finance lease liabilities		-0.1	-0.1
Total net cash generated from financing activities		-11.1	10.9
Adjustments		0.4	
Change in cash and cash equivalents		3.8	6.2
Cash and cash equivalents at the beginning of the period		24.4	19.2
Foreign exchange rate effect		-0.9	-1.0
Cash and cash equivalents at the end of the period	18	27.4	24.4

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

EUR million — Attributable to equity holders of the Company

	Share capital	Share premium fund	Fair value reserve	Fund for invested non-restricted equity	Translation differences	Retained earnings	Minority interest	Total equity
Equity on Jan. 1, 2006	3.5	16.3			-4.5	60.0	0.2	75.4
Change in translation differences					-2.6			-2.6
Gains and losses on hedges of net investments					0.0			0,0
Fair value gains on available-for-sale investments, net of tax			0.1					0.1
Net income recognized directly in equity			0.1		-2.6			-2.5
Net profit for the period						10.8	0.2	11.0
Total recognized income and expenses			0.1		-2.6	10.8	0.2	8.5
Dividends paid						-4.2		-4.2
Shares subscribed with options	0.0	0.4						0.4
Share option program						0.8		0.8
Other changes						0.2	0.2	0.4
Equity on Dec. 31, 2006	3.5	16.7	0.1		-7.1	67.6	0.6	81.3
Change in translation differences					-3.4			-3.4
Gains and losses on cash flow hedges			0.0					0.0
Gains and losses on hedges of net investments					0.7			0.7
Fair value gains on available-for-sale investments, net of tax								0.0
Net income and expenses recognized directly in equity			-0.1		-2.7			-2.7
Net profit for the period						17.3	0.3	17.5
Total recognized income and expenses			-0.1		-2.7	17.3	0.3	14.8
Private offering	0.1			4.9				5.0
Dividends paid						-4.6		-4.6
Shares subscribed with options	0.0	0.0						0.0
Share option program						0.4		0.4
Other changes						0.0	0.1	0.1
Equity on Dec. 31, 2007	3.6	16.7	0.0	4.9	-9.8	80.6	0.9	96.9

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ACCOUNTING PRINCIPLES FOR THE CONSOLIDATED ACCOUNTS

COMPANY'S BACKGROUND

Rapala VMC Oyj ("Company") is a Finnish public limited liability company organized under the laws of Finland, domiciled in Asikkala and listed on the Helsinki stock exchange since 1998. The parent company Rapala VMC Oyj and its subsidiaries ("Rapala" or "the Group") operate in 30 countries and the Company is one of the leading fishing tackle companies in the world.

The Board of Directors of the Company has approved these financial statements for publication at its meeting on February 4, 2008. Under Finland's Companies Act, shareholders have the option to accept or reject the financial statements in a meeting of shareholders, which will be held after the publication of the financial statements. The meeting has also the option of changing the financial statements.

A copy of the consolidated financial statements is available at the Group's website www.rapala.com or from Arabianranta 6, 00560 Helsinki, Finland.

BASIS FOR PREPARING THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), including IAS and IFRS standards as well as the SIC and IFRIC interpretations in effect on December 31, 2007. The term 'IFRS standards' refers to standards and interpretations of these in Finnish legislation and provisions based on this approved for applying in the EU in accordance with the procedure established in EU regulation (EY) 1606/2002. The consolidated financial statements have been prepared on a historical cost basis, unless otherwise stated. The consolidated financial statements are presented in millions of euros.

APPLIED NEW AND AMENDED STANDARDS AND INTERPRETATIONS

The Group adopted in 2007 only one new standard and one amended standard, which had impact on the Group's financial statements i.e. IFRS 7 Financial Instruments and Amendment to IAS 1 Presentation of Financial Statements – Capital Disclosures. This standard has introduced new disclosures to improve the information on financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments.

The Group adopted in 2007 the following new interpretations, which did not have impact on the Group's financial statements:

IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies

IFRIC 8 Scope of IFRS 2

IFRIC 9 Reassessment of Embedded Derivatives

IFRIC 10 Interim Financial Reporting and Impairment

The Group has not early adopted any new or amended standards or interpretations.

ADOPTION OF NEW AND AMENDED STANDARDS AND INTERPRETATIONS IN 2008-2009

The Group will adopt in 2008 the following new interpretations issued in 2006-2007:

IFRIC 11 IFRS 2 Group and Treasury Share Transactions (effective for annual periods beginning on or after March 1, 2007). This interpretation addresses how to apply IFRS 2 to share-based payment arrangements involving an entity's own equity instruments or equity instruments of another entity in the same Group (e.g. equity instruments of its parent). The Group estimates that adoption will not impact the Group's financial statements.

IFRIC 12 Service Concession Arrangements (effective for annual periods beginning on or after January 1, 2008). This interpretation addresses how to account for contractual arrangements arising from entities providing public services. The Group estimates that this adoption will not impact the Group's financial statements.

IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after January 1, 2008). This interpretation provides general guidance on how to assess the limit in IAS 19 Employee Benefits on the amount of the surplus that can be recognized as an asset. It also explains how the pension's asset or liability may be affected when there is a statutory or contractual minimum funding requirement. The Group investigates the impact of this on the Group's financial statements.

The Group will adopt in 2009 the following new and amended standards and interpretations issued in 2006-2007:

IFRS 8 Operating Segments (effective for annual periods beginning on or after January 1, 2009). According to the standard, segment information would be required to be reported on the basis that management uses internally for evaluating operating segment performance and deciding how to allocate resources to operating segments (management approach). Such information may be different from that reported in the income statement and balance sheet. IFRS 8 therefore requires explanations of the basis on which the segment information is prepared and reconciliations to the amounts recognized in the income statement and balance sheet. The Group investigates the impact of this on the Group's financial statements.

IAS 1 Presentation of Financial Statements (amendment) (effective for annual periods beginning on or after January 1, 2009). This revised standard brings changes to definitions and presentation of consolidated financial statement calculations. However, the revision does not change the recognition and measurement of transactions and events, or existing Group disclosures. The Group estimates that this will affect the presentation of consolidation financial statements, especially the presentation of Group's consolidated income statement and statement of changes in equity.

IAS 23 Borrowing costs (amendments) (effective for annual periods beginning on or after January 1, 2009). This revised standard requires capitalizing borrowing costs as part of the cost of assets that take a substantial period of time to get ready for use or sale. The Group estimates that amendment will not impact the Group's financial statements.

IFRIC 13 Customer Loyalty Programmes (effective for annual periods beginning on or after July 1, 2008). This interpretation addresses accounting by entities that grant loyalty award credits to customers who buy other goods or services. The Group estimates that this adoption will not impact the Group's financial statements.

CONSOLIDATION PRINCIPLES

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries in which it holds, directly or indirectly, over 50% of the voting rights. The financial statements of the subsidiaries are prepared for the same reporting year as the Company, using consistent accounting policies.

Acquired subsidiaries are accounted for using the purchase method of accounting, according to which the assets and liabilities of the acquired company are measured at fair value at the date of acquisition. The excess acquisition cost over the fair value of net assets acquired is recognized as goodwill. If the cost of acquisition is less than the fair value of the Group's share of the net assets acquired, the difference is recognized directly through income statement. Goodwill on consolidation is not amortized but tested for impairment annually. In accordance with the exemption under IFRS 1, acquisitions prior to the IFRS transition date, January 1, 2004, have not been restated and these values are according to the previous financial statement standards. The consolidated financial statements include the results of acquired companies for the period from the completion of the acquisition. Conversely, divestments are included up to their date of sale.

Associated companies, where the Group holds voting rights of 20-50% and in which the Group has significant influence, but not control, are included in the consolidated financial statements using the equity method. Under the equity method, the Group's share of the associate's profit or loss for the year is recognized in the consolidated income statement after operating profit. The Group's interest in an associated company is carried in the balance sheet at an amount that reflects its share of the net assets of the associate together with goodwill on acquisition, as amortized, less any impairment. Unrealized gains, if any, between the Group and associated companies are eliminated to the extent of the Group's holding. Associated companies' financial statements have been converted to correspond with the accounting principles in use in the Group. When the Group's share of losses exceeds the carrying amount of an investment, the carrying amount is reduced to nil and any recognition of further losses ceases unless the Group has incurred obligations in respect of the associated companies.

The investments in subsidiaries have been eliminated using the acquisition cost method. All transactions between Group companies as well as assets and liabilities, dividends and unrealized internal margins in inventories and tangible assets have been eliminated in the consolidated financial statements. Minority interest is presented separately from the net profit and disclosed as a separate item in the equity in accordance with the share of the minority interest. Minority interest of accrued losses is recognized in the consolidated financial statements up to a maximum of the amount of the investment. Acquisitions of minority interest are accounted for using the parent entity extension method, according to which the difference between the consideration and the carrying value of the share of the net assets acquired is recognized as goodwill. Disposals of minority interest are also accounted for using the parent entity extension method, according to which the Group's gain/loss from the disposal is recognized in the income statement. Calculation of Group's gain/loss from the disposal should also include the disposed share of previously recognized goodwill, which is also seen as being disposed of.

FOREIGN CURRENCY TRANSACTIONS AND TRANSLATIONS

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. Non-monetary items denominated in foreign currency, measured at fair value, are translated using the exchange rates at the date when the fair value was determined. Other non-monetary items have been translated into the functional currency using the exchange rate on the date of the transaction. Foreign exchange gains and losses for operating business items are recorded in the appropriate income statement account before operating profit. Foreign exchange gains and losses from the translation of monetary interest-bearing assets and liabilities denominated in foreign currencies are recognized in financial income and expenses. Exchange differences arising on a monetary item that forms part of a net investment in a foreign operation are recognized in a separate component of equity and recognized in profit or loss on disposal of the net investment.

The consolidated financial statements are presented in euros, which is the Company's functional and reporting currency. Income statements of subsidiaries, whose functional and reporting currencies are not euros, are translated into the Group reporting currency using the average exchange rate for the year. Their balance sheets are translated using the exchange rate of balance sheet date. All exchange differences arising on the translation are entered in equity. The translation differences arising from the use of the purchase method of accounting and after the date of acquisition as well as fair value changes of loans which are hedges of such investments are recognized in equity.. On the disposal of a subsidiary, whose functional and reporting currency is not euro, the cumulative translation difference for that entity is recognized in the income statement as part of the gain or loss on the sale.

Any goodwill arising on the acquisition of a foreign company and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign subsidiary and translated using the exchange rate of balance sheet date. Goodwill and fair value adjustments arising from the acquisition prior to January 1, 2004 have been treated as assets and liabilities of the Group, i.e. in euros.

REVENUE RECOGNITION

Net sales comprise of consideration received less indirect sales taxes, discounts and exchange rate differences arising from sales denominated in foreign currency. Sales of goods are recognized after the significant risks and rewards of ownership of the good have passed to the buyer and no significant uncertainties remain regarding the consideration, associated costs and possible return of goods. The costs of shipping and distributing products are included in other operating expenses. Revenues from services are recorded when the service has been performed.

Rental income arising from operating leases is accounted for on a straight-line basis over the lease terms. Royalty income is recorded according to the contents of the agreement. Interest income is recognized by the effective yield method. Dividend income is recognized when the company has acquired a right to receive the dividends.

INCOME TAXES

The Group's income tax expense includes taxes of the Group companies based on taxable profit for the period, together with tax adjustments for previous periods and the change in deferred income taxes. The income tax effects of items recognized directly in equity are similarly recognized. The current tax expense for the financial year is calculated from the taxable profit based on the valid tax rate of each country. The tax is adjusted with possible taxes related to previous periods. The share of results in associated companies is reported in the income statement as calculated from net profit and thus including the income tax charge.

Deferred taxes are provided using the liability method, as measured with enacted tax rates, to reflect the temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The main temporary differences arise from the depreciation difference on tangible assets, fair valuation of net assets in acquired companies, intra-group inventory profits, defined benefit pension plans, inventories and other provisions, untaxed reserves and tax losses carried forward. Temporary differences are recognized as a deferred tax asset to the extent that it is probable that future taxable profits will be available, against which the deductible temporary difference can be utilized.

RESEARCH AND DEVELOPMENT COSTS

Research and development costs are expensed as they are incurred, unless they relate to a clearly defined project that meets certain criteria. Development costs for such projects are capitalized if they are separately identifiable and if the products are assessed to be technically feasible and commercially viable and the related future revenues are expected to exceed the aggregate deferred and future development costs and related production, selling and administrative expenses, and if adequate resources exist or will be available to complete the project. Capitalized development costs include all directly attributable material, employee benefit and testing costs necessary to prepare the asset to be capable of operating in the manner intended. Research and development costs that were initially recognized as an expense, are not to be capitalized at a later date.

Amortization of such a product is commenced when it is available for use. Unfinished products are tested annually for impairment. Capitalized development expenses are amortized on a straight-line basis over their expected useful lives, a maximum of five years.

GOODWILL

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the subsidiary, associated undertaking or joint venture acquired after January 1, 2004. Any costs directly attributable to the business combination, such as professional fees, are included to the cost of an acquisition. Goodwill from the combination of operations acquired prior to January 1, 2004 corresponds to the carrying amount according to the previous financial statement standards, which has been used as the assumed acquisition cost according to IFRS.

Goodwill is tested annually for impairment. For this purpose, goodwill has been allocated to cash generating units. Goodwill is measured at cost less any accumulated impairment loss, and is not amortized.

INTANGIBLE ASSETS

Intangible assets include customer relations, trademarks, capitalized development expenses, patents, copyrights, licenses and software. An intangible asset is recognized in the balance sheet only if it is probable that the future economic benefits that are attributable to the asset will flow to the Group, and the cost of the asset can be measured reliably. Intangible assets are stated at cost, amortized on a straight-line basis over the expected useful lives which vary from 3 to 10 years and adjusted for any impairment charges. Trademarks and other intangible assets whose useful life is estimated to be indefinite are estimated to affect cash flow accumulation for an undefined period of time. The expected useful life for most trademarks is indefinite and therefore they are not amortized. These intangibles are measured at cost less any accumulated impairment loss and not amortized. Intangible assets with indefinite useful lives are tested for impairment annually. The valuation of intangible assets acquired in a business combination is based on fair value as at the date of acquisition.

Expected useful lives and indefinite lives of intangible assets are reviewed at each balance sheet date and, where they differ significantly from previous estimates, depreciation periods are changed accordingly.

TANGIBLE ASSETS

Tangible assets are stated at historical cost, amortized on a straight-line basis over the expected useful life and adjusted for any impairment charges. The valuation of tangible assets acquired in a business combination is based on fair value as at the date of acquisition. Land is not depreciated as it is deemed to have an indefinite life.

Depreciation is based on the following expected useful lives:

Buildings	20 years
Machinery and equipment	5–10 years
Other tangible assets	3–10 years

Expected useful lives of tangible assets are reviewed at each balance sheet date and, where they differ significantly from previous estimates, depreciation periods are changed accordingly. Ordinary maintenance and repair costs are expensed as incurred. The cost of significant renewals and improvements are capitalized and depreciated over the remaining useful lives of the related assets. Gains and losses on sales and disposals are determined by comparing the received proceeds with the carrying amount and are included in the income statement in the item other operating income and expenses.

Depreciation of a tangible asset is discontinued when the tangible asset is classified as being held-for-sale in accordance with IFRS 5 standard Non-Current Assets Held-for-sale and Discontinued Operations.

BORROWING COSTS

Borrowing costs are expensed as incurred.

GOVERNMENT GRANTS

Government or other grants are recognized in the income statement as other operating income on a systematic basis over the periods necessary to match them with the related costs, which they are intended to compensate. Government grants relating to purchase of tangible assets are recognized as revenue on a systematic basis over the useful life of the asset when there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. In the balance sheet, grants are deducted from the value of the asset they relate to. The grants are recognized as income as lower depreciations over the useful life of the asset. Currently, all grants of the Group have been recognized in the income statement as other operating income.

IMPAIRMENTS OF TANGIBLE AND INTANGIBLE ASSETS

The carrying amounts of tangible and intangible assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If indication exists, the recoverable amount is measured. Indications of potential need for impairment may be for example changes in market conditions and sales prices, decisions on significant restructurings or change in profitability. Goodwill, intangible assets with indefinite useful lives and unfinished tangible assets are in all cases tested annually. For the purposes of assessing impairment, assets are grouped at the lowest cash generating unit level for which there are separately identifiable, mainly independent, cash inflows and outflows.

An impairment loss is the amount by which the carrying amount of the assets exceeds the recoverable amount. The recoverable amount is determined by reference to discounted future net cash flows expected to be generated by the asset. Discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment loss is immediately recognized in the income statement. Impairment losses attributable to a cash-generating unit are used to deducting first the goodwill allocated to the cash-generating unit and, thereafter, the other assets of the unit on an equal basis. The useful life of the asset to be depreciated is reassessed in connection with the recognition of the impairment loss. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount. However, the reversal must not cause that the adjusted value is higher than the carrying amount that would have been determined if no impairment loss had been recognized in prior years. Impairment losses recognized for goodwill are not reversed.

ASSETS HELD-FOR-SALE

Non-current assets (or a disposal group) are classified as held-for-sale, if their carrying amount will be recovered principally through the disposal of the assets rather than through continuing use. For this to be the case, the sale must be highly probable, the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary, the management must be committed to selling and the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets held-for-sale (or assets included in the disposal group) are measured at the lower of carrying amount and fair value less estimated selling expenditure. After an asset has been classified as held-for-sale, it is not depreciated. If the classification criterion is not met, the classification is reversed and the asset is measured at the lower of carrying amount prior to the classification less depreciation and impairment, and recoverable amount. A non-current asset held-for-sale and assets included in the disposal group classified as held-for-sale are disclosed separately from the other asset items.

ACCOUNTING FOR LEASES

Group as a lessee

Leases of tangible assets, where the Group has substantially all the rewards and risks of ownership, are classified as finance leases. Finance leases are capitalized at the inception of the lease at the lower of the fair value of the leased asset or the estimated present value of the underlying lease payments.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. The corresponding rental obligations, net of finance charges, are included in interest-bearing liabilities with the interest element of the finance charge being recognized in the income statement over the lease period. Tangible assets acquired under finance lease contracts are depreciated over the shorter of the estimated useful life of the asset or lease period.

Leases of tangible assets, where the lessor retains all the risks and benefits of ownership, are classified as operating leases. Payments made there under, and under rental agreements, are expensed on a straight-line basis over the lease periods. Received incentives are deducted from the paid leases based on the time elapse of benefit.

Currently the Group does not have arrangements that contain a lease.

Group as a lessor

Those leases under which the Group is a lessor are classified as operating leases. Leased assets are presented in the lessor's balance sheet under tangible assets according to the nature of the asset. They are depreciated over their estimated useful lives in accordance with the depreciation policy used for comparable assets in own use. Lease income is recognized in the income statement on a straight-line basis over the lease term.

FINANCIAL ASSETS

Financial assets are classified as financial assets at fair value through profit or loss, financial assets held-to-maturity, loans and receivables or available-for-sale financial assets. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate re-evaluates this designation at each financial year-end. Financial assets include current and non-current assets and they can be interest-bearing or non-interest-bearing.

Financial assets at fair value through profit or loss include financial assets held-for-trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held-for-trading if they are acquired for the purpose of selling in the near term. All of the Group's currency derivatives, which do not qualify for hedge accounting, are classified as financial assets held-for-trading. Financial assets are classified as held-for-trading are measured at fair value. Unrealized and realized changes in fair value are recognized in the income statement.

Financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has a positive intention and ability to hold to maturity. At present, the Group doe not have any held-to-maturity financial assets.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortized cost using the effective interest rate method less any allowance for impairment. Initially recognized amount includes directly attributable transaction costs. Gains and losses are recognized in the income statement when loans and receivables are derecognized, impaired, and through the amortization process.

Financial assets that are not classified in the two preceding categories are classified as available-for-sale. When available-for-sale financial assets are recognized initially, they are measured at fair value by using quota market rates and market prices, discounted cash flow analyses and other appropriate valuation models. Certain unlisted shares for which fair values cannot be measured reliably are reported at cost less impairment. The fair value changes of available-for-sale financial assets, net of tax, are recognized in shareholders' equity. Changes in fair value are transferred from equity to the income statement when the instrument is sold or its value has fallen so that an impairment loss has to be recognized for the instrument. Purchases and sales of available-for-sale financial assets are recognized on the trade date.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

The Group is exposed to financial risks related especially to changes in foreign currency exchange rates and interest rates for loans and borrowings. Derivative financial instruments are used, from time to time, to hedge financial risk. All derivatives are initially recognized at fair value on the date derivative contract is entered into, and are subsequently remeasured at fair value on each balance sheet date. Determination of fair values is based on quoted market prices and rates, discounting of cash flows and option valuation models.

Derivatives may be designated as hedging instruments, in which case hedge accounting is applied. If hedge accounting is not applied, fair value changes in derivatives are recognized in the income statement. In the case hedge accounting is applied, the accounting for hedging instruments is dependent on the particular nature of the hedging relationship.

In cash flow hedges, changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognized directly in equity and the ineffective portion is recognized immediately in the income statement. If hedge accounting is not applied, fair value changes in derivatives are recognized in the income statement. Gains and losses from derivative instruments recognized in the income statement are presented in other operating income or expenses and in financial income or expenses only when the derivative instrument is assigned to interest-bearing financial assets or liabilities. Accumulated fair value changes recognized in equity are released into income statement in the period when the hedged cash flow affects income or if the hedged subsidiary is sold or liquidated.

Changes of the fair value of derivative financial instruments that are designated and qualify as fair value hedges are recorded in the income statement together with the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If derivative financial instrument does not qualify for hedge accounting, any changes in fair value are recognized in the income statement.

Currently, the Group has short-term standard and modified foreign currency forwards to which hedge accounting is not applied but which have been made to hedge operative cash flow exchange rate risk. Fair values of standard foreign currency forwards are determined by discounting the future nominal cash flows with relevant interest rates and then converting the discounted cash flows to the functional currency using spot rates. The fair values of modified foreign currency forwards are received from the bank.

The Group also has an interest rate swap, which is designated and effective as cash flow hedge. The fair values of interest rate derivatives have been calculated using a discounted cash flow method and are received from the bank. Currently, the Group does not have any fair value hedges or embedded derivatives.

Hedge accounting is applied to hedges of net investment in the foreign subsidiaries. Group hedges its net investments in foreign subsidiaries using currency loans. Hedges of net investments in foreign subsidiaries are recorded in the same way as cash flow hedges. Effective portion of changes in the fair value are recognized directly in translation differences of equity and the ineffective portion is recognized in financial income and expenses. Accumulated fair value changes recognized in equity are released into income if the hedged subsidiary is sold or liquidated.

If hedge accounting is applied, hedging programs are documented according to the requirements of IAS 39 and designated hedging instruments are subject to prospective and retrospective testing of effectiveness.

INVENTORIES

Inventories are valued at the lower of cost or net realizable value. Cost is determined by the first-in, first-out (FIFO) method or, alternatively, weighted average cost where it approximates FIFO. The cost of finished goods and work in progress comprises raw materials, direct labor, depreciation, other direct costs and related production overheads, but excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

TRADE RECEIVABLES

Trade receivables are carried at their anticipated realizable value, which is the original invoice amount less an estimated valuation allowance. A credit loss allowance of trade receivables is made when there is objective evidence (such as significant overdue of receivables and unsuccessful dunning attempts or known financial difficulties and thus increased probability of customer insolvency) that the Group will not be able to collect all amounts due according to the original terms of the receivables. The assessment and decision for credit loss allowances on is done locally in each business unit on case-by-case –basis.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts are included within borrowings in current interest-bearing loans.

TREASURY SHARES

If the company or its subsidiaries recognizes own equity instruments (treasury shares) these are deducted from equity. No gain or loss is recognized in the income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments. At present, the Group holds no such shares.

FINANCIAL LIABILITIES

Financial liabilities are initially recognized at the fair value of the consideration received plus directly attributable transactions costs. After initial recognitions, they are subsequently measured at amortized cost using the effective interest method. Also commercial paper program are measured at amortized cost. Gains and losses are recognized in the income statement when the liabilities are derecognized, impaired and through the amortization process.

Financial liabilities include current and non-current liabilities and they can be interest-bearing or non-interest-bearing.

RECOGNITION AND DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES

Financial assets and liabilities, except for derivatives and available-for-sale financial assets, are recognized at the settlement date.

A financial asset or a financial liability is recognized on the balance sheet when, and only when, the Group becomes a party to the contractual provisions of the financial instrument.

A financial asset is derecognized when, and only when the contractual rights to the cash flows from the financial asset expire or when it transfers the financial asset, so that all the risks and rewards of ownership of the financial asset are substantially transferred. A financial liability or a part of a financial liability is removed from the balance sheet when, and only when, it is extinguished, that is when the obligation specified in the contract is discharged or cancelled or expires.

IMPAIRMENT OF FINANCIAL ASSETS

The Group assesses at each balance sheet date whether a financial asset or group of financial asset is impaired. An impairment loss in respect of loans and receivables is measured as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is measured as a difference between its acquisition costs and its current fair value, less any impairment loss on that financial asset previously recognized in the income statement. An impairment loss in respect of an unquoted equity instrument that is not carried at fair value, because its fair value cannot be reliably measured, is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

All impairment losses are recognized in the income statement. Any cumulative loss in respect of an available-for-sale financial asset recognized previously in equity is transferred to income statement.

A previously recognized impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets amortized at cost and available-for-sale financial assets that are debt securities, the reversal is recognized in the income statement. For available-for-sale financial assets that are equity securities, the reversal is recognized directly in equity. An impairment loss in respect of an unquoted equity instrument that is not carried at fair value, because its fair value cannot be reliably measured, cannot be reversed.

PROVISIONS

Provisions are recognized in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. Provisions are valued at the net present value of the expenses required to cover the obligation. The discount factor used when calculating present value is selected so that it describes the market view of the time value of the money and the risk relating to the obligation at the time of examination.

A warranty provision is recognized when a product containing a warranty clause is sold. The size of the sum involved is determined on the basis of what is known about past warranty costs. A restructuring provision is recognized when the Group has compiled a detailed restructuring plan, launched its implementation or has informed the parties concerned.

WASTE ELECTRICAL AND ELECTRONIC EQUIPMENT

The Group is a distributor of electrical equipment that falls under the EU Directive on Waste Electrical and Electronic Equipment. Expected costs are recognized as part of other operating expenses and as a current non-interest-bearing payable.

EMPLOYEE BENEFITS

Pension obligations

Throughout the Group operates various pension plans in accordance with local conditions and practices. The plans are classified as either defined contribution plans or defined benefit plans. The contributions to defined contribution plans are charged to the income statement in the year to which they relate.

The Group operates defined benefit pension plans only in France, Canada and Sweden only. For defined benefit plans, pension costs are assessed using the projected unit credit actuarial valuation method, in which the costs of providing pensions is charged to the income statement so as to spread the regular cost over the service lives of employees in accordance with the advice of qualified actuaries who carry out a full valuation of the plan. The pension obligation is measured as the present value of estimated future cash outflows. Defined benefit liability comprises of the present value of the defined benefit obligation less past service and actuarial gains and losses not yet recognized and less the fair value of plan assets. All actuarial gains and losses are recognized in the income statement over the average remaining service lives of employees, to the extent that they exceed 10% of pension obligations or the fair value of plan assets. The past service cost is recognized as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or change to, a pension plan, past service cost is recognized immediately. In accordance with the exemption under IFRS 1, all cumulative actuarial gains and losses have been recognized in retained earnings at the date of transition, January 1, 2004.

Share-based payments

The Group has applied the requirements of IFRS 2 (Share-based Payment) to all option programs granted after November 7, 2002 that were unvested as of January 1, 2005. The Group has three separate share-based payment programs: two share option programs and one synthetic option program settled in cash. Share-based payments programs are valued at fair value on the grant date and recognized as an expense in the income statement during the vesting period with a corresponding adjustment to the equity or liability. In cash settled option programs liability is remeasured at each balance sheet date with changes in fair value recognized in income the statement. The income statement effect of option programs are recognized in employee benefit expenses.

The expense of the options determined at the grant date reflects the Group's estimate of the number of options that will ultimately vest. Grant date is the date at which the entity and another party agree to a share-based payment arrangement, being when the entity and the counterparty have a shared understanding of the terms and conditions of the arrangement. These options are valued at fair value using Black-Scholes option-pricing model. The non-market criteria are not included in the fair value of the option but taken into account in the number of options that are assumed to vest. On a regular basis the Group reviews the assumptions made and revises its estimates of the number of shares that are expected to be settled. The changes in the estimates are recognized in the income statement with a corresponding adjustment to the equity or liability.

When the share options are exercised, the proceeds received, net of any transaction costs, are credited to share capital (nominal value) and share premium fund. The Group has not decided on any option programs since the new Finnish Companies Act came into effect.

DIVIDENDS

The dividend proposed by the Board of Directors is not deducted from distributable equity until approved by the Annual General Meeting of Shareholders.

EARNINGS PER SHARE

Earnings per share is calculated by dividing the net profit attributable to the shareholders of the Company by the weighted average number of shares in issue during the year, excluding shares purchased by the Group and held as treasury shares, if any.

Diluted earnings per share amounts have been calculated by applying the "treasury stock" method, as if the options were exercised at the beginning of the period, or on the issuance of options, if that occurs later during the period, and as if the funds obtained thereby were used to purchase common stock at the average market price during the period. In addition to the weighted average number of shares outstanding, the denominator includes the incremental shares obtained through the assumed exercise of the options. The assumption of exercise is not reflected in earnings per share when the exercise price of the options exceeds the average market price of the shares during the period. The share options have a diluting effect only when the average market price of the share during the period exceeds the exercise price of the options.

OPERATING PROFIT

The IAS 1 (Presentation of Financial Statements) standard does not define operating profit. The Group has defined it as follows: Operating profit is the net amount arising from adding other operating income to net sales, deducting cost of sales corrected for changes in inventories and cost of production for own use, deducting costs related to employee benefits, depreciation and possible impairments as well as other operating expenses. Foreign exchange differences and changes in the fair value of derivative financial instruments are included in operating profit in case they originate from operating business items; otherwise they are booked in financial income and expenses.

CASH FLOW STATEMENT

Cash and cash equivalents presented in the cash flow statement comprise cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less. Cash generated from operating activities has been reported using the indirect method. All income taxes paid during the financial year are presented in net cash generated from operating activities, unless they can be particularly allocated to net cash from (used in) investing or financing activities. Unrealized exchange gains and losses from cash and cash equivalents denominated in foreign currencies and from transactions between Group companies are presented on a separate row before change in cash and cash equivalents, separate from cash generated from (used in) operating, investing and financing activities.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the consolidated financial statements in accordance with IFRS requires management to make certain estimates and assumptions that affect the amounts recognized in the consolidated financial statements and accompanying notes. Actual results may differ from these estimates. In addition, judgment has to be exercised in applying the accounting principles of the financial statements. Management's estimates and assumptions are based on historical experience and plausible future scenarios, which are continually evaluated. Possible changes in estimates and assumptions are recognized in the accounting period during which estimates and assumptions were fixed and in all subsequent accounting periods.

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next accounting period, are discussed below.

Determining fair value of acquisitions

The fair values of acquired working capital and tangible assets were evaluated by Rapala and external appraisal personnel before the acquisition. The fair value of intellectual property rights (trademarks, patents and technology) and customer relations are established with discounting the related cash flows.

Impairment testing

The carrying amounts of tangible and intangible assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. Goodwill, intangible assets with indefinite useful lives and unfinished tangible assets are in all cases tested annually. For the purposes of assessing impairment, assets are grouped at the lowest cash generating unit level for which there are separately identifiable, mainly independent, cash inflows and outflows. An impairment loss is the amount by which the carrying amount of the assets exceeds the recoverable amount. The recoverable amount is determined by reference to discounted future net cash flows expected to be generated by the asset. These calculations require the use of estimates.

Income taxes

The Group reviews at each balance sheet date especially the carrying amount of deferred tax assets. Deferred taxes are provided using the liability method, as measured with enacted tax rates, to reflect the temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The main temporary differences arise from the depreciation difference on tangible assets, fair valuation of net assets in acquired companies, intra-group inventory profits, defined benefit pension plans, inventories and other provisions, untaxed reserves and tax losses carried forward. Temporary differences are recognized as a deferred tax asset to the extent that it is probable that future taxable profits will be available, against which the deductible temporary difference can be utilized. The likelihood for the recovery of deferred tax assets from future taxable income is assessed, and to the extent the recovery is not considered likely the deferred asset is adjusted in accordance. At each balance sheet date the Group reviews whether distribution of earnings in subsidiaries is in its control and probable, and books a deferred tax accordingly.

Employee benefits

Pension costs for defined benefit plans are assessed using the projected unit credit actuarial valuation method. Several statistical and other actuarial assumptions are used in calculating the expense and liability related to the plans. These factors include assumptions about the discount rate, future salary increase and annual inflation rate. Statistical information used may differ from actual results. Changes in actuarial assumptions are charged or credited to income over the expected remaining service lives of the employees which could have a slight impact on the Group's income statement.

Share-based payments

Options are valued at fair value using Black-Scholes option-pricing model. Several assumptions are used in calculating the fair value of the option. These factors include dividend yield, risk free interest rate, expected life of option and personnel forfeit ratio. Then non-market criteria are not included in the fair value of the option but taken into account in the number of options that are assumed to vest. On a regular basis the Group reviews the assumptions made and revises its estimates of the number of shares that are expected to be settled. The changes in the estimates are recognized in the income statement.

Provisions

The timing of the recognition of a provision is based on management's estimate of the moment when the Group has a present legal or constructive obligation, as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

ROUNDING OF FIGURES

All figures in these accounts have been rounded. Consequently the sum of individual figures can deviate from the presented sum figure. Key figures have been calculated using exact figures.

In the financial statements, EUR 0.0 million means the figure is less than EUR 50 000. If the amount is EUR 0, an empty cell is used.

DEFINITION OF KEY FIGURES

Operating profit before depreciation and impairments (EBITDA)	=	Operating profit + depreciation and impairments
Net interest-bearing liabilities	=	Total interest-bearing liabilities - total interest-bearing assets
Capital employed	=	Total equity + net interest-bearing liabilities
Working capital	=	Inventories + total non-interest-bearing assets - total non-interest-bearing liabilities
Total non-interest-bearing assets	=	Total assets - interest-bearing assets - intangible and tangible assets - assets classified as held-for-sale
Total non-interest-bearing liabilities	=	Total liabilities - interest-bearing liabilities
Average interest rate on net interest-bearing debt, %	=	(Interest paid - interest received) x 100 / Net interest-bearing debt
Net interest-bearing debt to EBITDA	=	Net interest-bearing debt / Operating profit before depreciation and impairments x 100
Return on capital employed (ROCE), %	=	Operating profit x 100 / Capital employed (average for the period)
Return on equity (ROE), %	=	Net profit for the period x 100 / Total equity (average for the period)
Debt-to-equity ratio (Gearing), %	=	Net interest-bearing liabilities x 100 / Total equity
Equity-to-assets ratio, %	=	Total equity x 100 / Total shareholders' equity and liabilities - advances received
Earnings per share, EUR	=	Net profit for the period attributable to the equity holders of the Company / Adjusted weighted average number of shares
Dividend per share, EUR	=	Dividend for the period / Adjusted number of shares at the end of the period
Dividend/earnings ratio, %	=	Dividend for the period x 100 / Net profit for the period attributable to the equity holders of the Company
Equity per share, EUR	=	Equity attributable to equity holders of the Company / Adjusted number of shares at the end of the period
Effective dividend yield,%	=	Dividend per share x 100 / Adjusted shares price at the end of the period
Price/earnings ratio	=	Adjusted shares price at the end of the period / Earnings per share
Avarage share prices, EUR	=	EUR amount traded during the period / Adjusted number of shares trated during the period
Year-end market capitalization, EUR	=	Number of shares at the end of the period x share price at the end of the period
Average number of personnel	=	Calculated as average of monthly averages

2. SEGMENT INFORMATION

The Group is led as a whole and not organized or managed in segments. For IFRS purposes, segments have though been established for financial reporting in accordance with IAS 14.

Geographical segments (by unit location) provide products or services within a particular economic environment that is subject to risks and returns that are different from those of segments in other economic environments. Business segments provide products or services that are subject to risks and returns that are different from those of other business segments.

Group's primary reporting segments are geographical segments, namely North America, Nordic, Rest of Europe, and Rest of the World. Secondary reporting segments are based on product lines, which are Lures, Fishing Hooks, Fishing Accessories, Third Party Fishing Products and Other Products. Third Party Fishing Products include non-Group branded fishing products, mostly rods, reels and fishing electronics. Other Products include non-Group branded (third party) products for hunting, outdoor and winter sports and Group branded products for winter sports and some other businesses. Pricing of inter-segment transactions is based on market prices.

GEOGRAPHICAL SEGMENTS

EUR million

2007	North America	Nordic	Rest of Europe	Rest of the World	Eliminations	Total
External net sales	66.5	64.5	72.8	38.6		242.5
Internal net sales	0.2	31.5	19.3	24.2	-75.2	
Net sales	66.7	96.0	92.1	62.9	-75.2	242.5
External net sales by destination	69.3	58.2	86.1	28.8		242.5
Operating profit	7.5	12.5	3.4	5.4	-0.3	28.3
Financial income and expenses						-5.0
Income taxes						-5.8
Net profit for the period						17.5
Allocated assets	61.2	68.7	64.2	35.0	-11.5	217.6
Unallocated assets 1)						36.1
Total assets						253.7
Allocated liabilities	8.3	25.8	24.0	11.0	-25.8	43.3
Unallocated liabilities 1)						113.5
Total liabilities						156.8
Depreciation and impairments	0.0	-1.7	-2.2	-1.5		-5.4
Capital expenditure	2.3	1.9	2.8	2.3		9.3
Non-recurring income and expenses	0.9	5.0	-4.3	0.1		1.6

2006

	North America	Nordic	Rest of Europe	Rest of the World	Eliminations	Total
External net sales	69.5	62.4	63.1	31.5		226.6
Internal net sales	0.1	31.8	19.9	12.1	-64.0	
Net sales	69.7	94.2	83.0	43.7	-64.0	226.6
External net sales by destination	70.8	55.0	76.2	24.7		226.6
Operating profit	6.4	6.9	7.0	2.8	-1.4	21.7
Financial income and expenses						-7.1
Income taxes						-3.6
Net profit for the period						11.0
Allocated assets	65.1	71.7	61.9	31.6	-18.1	212.2
Unallocated assets 1)						31.4
Total assets						243.6
Allocated liabilities	20.6	15.9	16.2	10.5	-30.2	33.0
Unallocated liabilities 1)						129.4
Total liabilities						162.3
Depreciation and impairments	-0.9	-1.6	-2.1	-1.7		-6.3
Capital expenditure	0.8	4.8	2.4	5.7		13.8
Non-recurring income and expenses	-0.1	0.0	-0.2	-0.2		-0.4

1) Unallocated assets and liabilities include interest-bearing assets and liabilities as well as deferred tax assets and liabilities.

BUSINESS SEGMENTS

2007

	Lures	Fishing Hooks	Fishing Accessories	Third Party Fishing Products	Other Products	Eliminations	Total
Net sales	73.9	16.9	43.5	63.4	47.8	-3.2	242.5
Non-interest-bearing assets	102.3	14.6	36.6	43.4	28.9	-0.2	225.6
Interest-bearing assets						28.1	28.1
Total assets						27.9	253.7
Capital expenditure	4.3	0.6	0.9	1.3	2.2		9.3

2006

	Lures	Fishing Hooks	Fishing Accessories	Third Party Fishing Products	Other Products	Eliminations	Total
Net sales	73.0	14.8	45.8	53.5	42.4	-2.9	226.6
Non-interest-bearing assets 2)	114.2	11.6	44.3	26.6	22.3	-0.6	218.4
Interest-bearing assets						25.1	25.1
Total assets						24.5	243.6
Capital expenditure	3.0	0.7	3.4	4.1	2.6		13.8

2) Allocation of assets to business segments has been specified and, starting from 2007, only non-interest-bearing assets are allocated to business segments. Comparative information has been restated accordingly.

3. ACQUISITIONS AND DISPOSALS

ACQUISITIONS IN 2006

In January 2006, Rapala acquired the French fishing line supplier Tortue. In February 2006, Rapala VMC South-Africa Distributors Pty Ltd ("Rapala South-Africa") acquired 100% of the shares of Tatlow and Pledger Pty Ltd ("T&P"). Rapala's ownership of Rapala South-Africa is now 70% while the former managers of T&P, Grant and Mark Pledger, together own 30%. Rapala South-Africa is the leading fishing tackle distributor in South Africa with exports to several other African countries.

These acquisitions contributed EUR 9 million to the 2006 net sales and EUR 1.0 million to the net profit of the Group. These figures would have been the same even if the acquisitions would have taken place in the beginning of the year.

ACQUISITIONS IN 2007

In January, Rapala acquired the fishing tackle business of Outdoor Innovations LLC and Horizon Lures LP ("Terminator"), USA based manufacturers and distributors of Terminator branded spinner baits and other fishing lures. The deal includes patents for the use of nickel titanium wire in fishing lures, trademarks, customer lists, inventories, and trade receivables.

In April, Rapala acquired 10% minority stake of Rapala's Hungarian distribution company, Rapala Eurohold Ltd ("Rapala Eurohold"), from Mr Agh Senior. Acquisition raised Rapala's ownership to 80%.

Also in February and April, Rapala made a 0.2 MEUR final payment of the Guigo acquisition closed in 2004 and in May a 0.8 MEUR first settlement of final payment of the Freetime acquisition closed in 2005.

These acquisitions contributed EUR 1.5 million to the 2007 net sales and EUR 0.2 million to the net income of the Group. These figures would have been the same even if the acquisitions would have taken place in the beginning of the year.

EUR million	Note	2007 Fair value	2007 Seller's carrying value	2006 Fair value	2006 Seller's carrying value
Cash and cash equivalents and interest-bearing assets				1.1	1.1
Working capital		2.7	2.7	3.9	3.9
Intangible assets	13	0.7	0.1	1.2	
Tangible assets	12	0.1	0.1	0.1	0.1
Deferred tax asset	11			0.0	0.0
Interest-bearing liabilities				0.0	0.0
Deferred tax liability	11	-0.5		-0.3	
Fair value of acquired net assets		2.9	2.9	5.9	5.0

EUR million	Note	2007	2006
Cash paid in 2006			6.3
Cash paid in 2007		2.5	0.2
Cash paid in 2008 or later		0.4	
Costs associated with the acquisitions		0.1	0.1
Total purchase consideration		3.1	6.6
Excess of Group's interest in the net fair value of acquired net assets over cost		-1.0	
Goodwill 1)	13	0.2	0.7
Net		-0.9	0.7
Cash paid 2)		2.7	9.2
Cash and cash equivalents acquired			-0.9
Net cash flow		2.7	8.3

1) 2006 translation differences are EUR 0.2 million. Note 3 is based on exchange rates at acquisition date, whereas note 13 is based on exchange rates at closing date.

2) Cash paid in 2007 includes a payment of EUR 0.8 million for the Freetime acquisition and final payment of EUR 0.2 million for the Guigo acquisition.

Acquired companies are accounted for using the purchase method of accounting, which involves allocating the cost of the business combination to the fair value of the assets acquired and liabilities and contingent liabilities assumed at the date of acquisition. The purchase price of EUR 3.1 million (2006: EUR 6.6 million) resulted in the fair value allocation of EUR 0.0 million (2006: EUR 0.0 million) in tangible assets, EUR 0.3 million (2006: EUR 0.9 million) to customer related intangibles, EUR 0.2 million (2006: EUR 0.3 million) to intellectual property rights related intangibles (trademarks, patents and technology), EUR 0.5 million (2006: EUR 0.3 million) to deferred tax liabilities and net goodwill of EUR 0.2 million (2006: EUR 0.7 million). Excess of Group's interest in the net fair value of acquired net assets over cost EUR 1.0 million is recognized in income statement

The fair value of acquired intellectual property rights is established with the estimated discounted royalty payments. Determination of fair value is the market based estimated royalty rate (normalized net cash flow), that an external party would be willing to pay for the license contract. The fair value of customer relations is established based on the estimated duration of customer relationship (average minimum duration) and discounted net cash flows of present customer relationships.

A goodwill of EUR 0.2 million and an excess of Group's interest in the net fair value of acquired net assets over cost (negative goodwill) of EUR 1.0 million arose from acquisitions in 2007. The goodwill of 2006 (EUR 0.7 million) resulted from acquiring a distribution company in a new market and expansion of product and brand portfolio to implement the Group's strategy. Goodwill is justified by expansion of product assortment and market coverage as well as utilization of economies of scale in production and distribution. Resulted goodwill has been tested for impairment. For more details on the impairment testing of goodwill, see note 13.

PARTIAL DISPOSALS

In May 2007, Rapala and Shimano, one of the leading manufacturers of rods and reels worldwide, strengthened their distribution alliance in Hungary and South-East Europe. Shimano subscribed a 33.4% shareholding in Rapala Eurohold. Rapala's ownership is now 56.6% and the Managing Director of Rapala Eurohold, Mr Agh Jr, owns the remaining 10%.

In October 2007, Rapala and Shimano decided to strengthen their distribution alliance in Russia and Ukraine by establishing a 50/50 joint venture company in Finland, controlled by Rapala. This joint venture company, Rapala Shimano East Europe Oy, acquired existing Rapala distribution companies in both of these countries. As a result of the new joint venture, these distribution companies started to distribute, in addition to their current product offering, Shimano reels, rods and other Shimano fishing tackle products on exclusive basis. The distribution company in Russia also started to distribute Shimano bicycle parts. This deal was closed in December and included also 50% of the Group's distribution company in Czech Republic.

In addition to these partial disposals, the assets of the French fishing tackle shop where sold in December 2007.

EUR million	2007
Disposed working capital	0.1
Share of disposed goodwill	0.4
Share of disposed minority interest	0.1
Gain on disposals	5.3
Total consideration	5.9
Consideration received in cash	5.9

4. OTHER OPERATING INCOME

EUR million	2007	2006
Sale of 50%of Rapala Shimano East Europe Oy	4.9	
Insurance compensations	0.2	0.6
Rental income	0.2	0.2
Scrap sales	0.3	0.3
Other gains from sale of intangible and tangible assets	0.5	0.1
Government grants	0.2	0.0
Other income	0.5	0.4
Total	6.7	1.5

Other income, EUR 0.5 million (2006: 0.4 EUR million) is a combination of several smaller income items, of which none is individually significant.

5. OTHER OPERATING EXPENSES

EUR million	2007	2006
Selling and marketing expenses	-11.6	-12.0
Freight	-5.1	-4.9
Rents paid	-5.1	-4.4
Maintenance and utility expenses	-5.3	-4.5
Traveling expenses	-4.5	-4.1
Sales commissions	-3.7	-4.0
IT and telecommunication	-1.5	-1.2
Insurance expenses	-0.9	-1.2
Outsourced logistics	-0.6	-0.9
Consulting expenses	-1.5	-0.9
Auditors fees and services	-0.7	-0.8
Valuation allowance for trade receivables	-0.8	-0.7
Other expenses	-6.9	-8.6
Total	-48.3	-48.1

AUDITORS FEES AND SERVICES

Audit fees	-0.6	-0.7
Audit-related fees	-0.1	0.0
Fees for tax services	0.0	-0.1
Total	-0.7	-0.8

NON-RECURRING INCOME AND EXPENSES INCLUDED IN OPERATING PROFIT

Sale of 50% of Rapala Shimano East Europe Oy	4.9	
Consolidation of French operations	-2.5	
Closure of Irish lure factory	-1.1	
Other disposals of assets	0.4	-0.1
Excess of Group's interest in the net fair values of acquired net assets over costs (negative goodwill)	1.0	
Other restructuring costs	-1.3	-0.2
Other non-recurring items	0.1	-0.1
Total	1.6	-0.4

6. MATERIALS AND SERVICES

EUR million	2007	2006
Materials, goods and supplies		
Purchases during the period	-112.4	-98.1
Change in inventory	-0.6	0.3
External services	-1.9	-1.6
Total	-114.9	-99.5

7. EMPLOYEE BENEFIT EXPENSES

EUR million	2007	2006
Wages and salaries	-52.0	-46.0
Pension costs - defined contribution plans	-3.3	-3.3
Pension costs - defined benefit plans	0.0	0.0
Other long-term employee benefits	-0.1	
Option programs to be settled in shares	-0.4	-0.9
Option programs to be settled in cash	-0.3	0.0
Other personnel expenses	-8.8	-3.9
Total	-65.0	-54.1

The employee benefit expenses include EUR 3.1 million employee related expenses from the consolidation of French operations and closing of Irish lure factory, and EUR 0.9 million employee related expenses from other restructurings. For more details on employee benefits for top management and option programs, see notes 28 and 29.

AVERAGE PERSONNEL

Persons		
North America	120	118
Nordic	446	436
Rest of Europe	788	755
Rest of the World	3 223	2 678
Total	4 577	3 987

8. DEPRECIATION AND IMPAIRMENTS

EUR million	2007	2006
Depreciation of intangible assets		
Other intangible assets	-0.5	-0.6
Excess of Group's interest in the net fair value of acquired net assets over cost	1.0	
Depreciation of tangible assets		
Buildings	-1.0	-1.0
Machinery and equipment	-3.8	-3.7
Other tangible assets	-1.1	-1.0
Total	-5.4	-6.3

9. RESEARCH AND DEVELOPMENT EXPENSES

Net profit for the period includes research and development expenses of EUR 1.6 million recognized as an expense in 2007 (2006: EUR 1.2 million).

10. FINANCIAL INCOME AND EXPENSES

EUR million	2007	2006
Foreign exchange gains		
From loans and receivables	0.5	0.2
From financial liabilities measured at amortized cost	3.1	4.6
Foreign exchange losses		
From loans and receivables	-2.5	-5.7
From financial liabilities measured at amortized cost	-0.3	-0.5
Interest and other financial income		
Interest income from loans and receivables	0.9	0.7
Other financial income	0.0	0.1
Interest and other financial expenses		
Interest expense on financial liabilities measured at amortized cost	-6.6	-5.9
Other financial expenses	-0.2	-0.5
Total	-5.0	-7.1

Interest expenses include interest expense of finance lease contracts of EUR -0.1 million in 2007 (2006: EUR -0.1 million).

RECOGNIZED DIRECTLY IN EQUITY

Change in fair value of interest rate derivatives - hedge accounted	0.0	
Gains and losses on hedges of net investments	0.7	0,0
Fair value gains on available-for-sale investments, net of tax		0.1
Total	0.7	0.0

In 2007, as IAS 39 effectiveness requirements were fulfilled, hedges of net investments and interest rate dearivatives had no income statement effect.

EXCHANGE GAINS AND LOSSES IN THE INCOME STATEMENT

In net sales	-1.0	-1.5
In purchases	-0.2	-0.2
In other operating income and expenses		
Change in fair value of currency derivatives, non-hedge accounted	-0.1	0.1
In financial income and expenses	0.9	-1.4
Total	-0.4	-3.1

11. INCOME TAXES

EUR million	2007	2006
INCOME TAXES IN THE INCOME STATEMENT		
Current income tax	-7.7	-3.0
Deferred tax	1.9	-0.6
Total	-5.8	-3.6
INCOME TAX RECONCILIATION		
Income taxes at Finnish corporate tax rate (26%)	-6.1	-3.8
Effect of different tax rates in foreign subsidiaries	0.8	0.2
Non-deductible expenses and tax exempt income	0.5	0.1
Foreign withholding taxes	-0.2	0.0
Losses for which no deferred tax benefit is recognized	-0.5	-0.4
Taxes for prior years	-1.7	-0.8
Changes in the carrying amounts of deferred tax assets from prior years	0.3	1.1
Impact of the changes in the tax rates on deferred tax balances	0.0	
Effect of consolidation and eliminations	1.0	-0.5
Other items	0.0	0.5
Income taxes in the income statement	-5.8	-3.6

In 2007, Group started to calculate deferred taxes on internal inventory margins in more detail. Current income taxes and taxes from previous years include a total of EUR 1.9 million (2006: EUR 0.8 million) of additional tax cost relating to an ongoing dispute with Finnish tax authorities concerning the taxation of the Group's parent company in years 2004-2007. The additional tax levied by the tax authorities has been fully booked but the Group is currently finalizing its appeal to the Administrative Court.

MOVEMENT OF DEFERRED TAXES

EUR million

2007	Jan. 1	Income statement	Equity	Translation differences	Aquisitions (see note 3)	Dec .31
Tax losses carried forward	1.5	0.5		0.0		2.0
Provisions	0.3	-0.1		0.0		0.2
Pension obligations	0.2	0.0				0.2
Depreciation difference	0.2	0.2		0.0		0.3
Effect of consolidation and eliminations	3.4	1.5		-0.4		4.5
Other temporary differences	0.7	0.1		0.0		0.8
Total deferred tax assets	6.3	2.1		-0.4		8.0
Depreciation difference and other untaxed reserves	1.9	0.1		-0.2		1.8
Inventory	1.6	0.3		-0.2		1.7
Fair value adjustments for acquired net assets	1.3	-0.1		0.0	0.5	1.6
Other temporary differences	0.1	0.0				0.1
Total deferred tax liabilities	4.9	0.3		-0.4	0.5	5.3
Net deferred tax asset	1.3	1.9		0.0	0.5	2.7

2006	Jan. 1	Income statement	Equity	Translation differences	Aquisitions (see note 3)	Dec .31
Tax losses carried forward	1.0	0.6		-0.1		1.5
Provisions	0.2	0.1		0.0		0.3
Pension obligations	0.2	0.0				0.2
Depreciation difference	0.1	0.1		0.0		0.2
Effect of consolidation and eliminations	3.6	0.3		-0.4		3.4
Other temporary differences	0.5	0.2		0.0		0.7
Total deferred tax assets	5.5	1.4		-0.6		6.3
Depreciation difference and other untaxed reserves	0.6	1.3		-0.1		1.9
Inventory	1.1	0.6		-0.1		1.6
Fair value adjustments for acquired net assets	1.1				0.3	1.3
Other temporary differences	0.1	0.1	0.0	0.0		0.1
Deferred tax liabilities	2.9	2.0	0.0	-0.2	0.3	4.9
Net deferred tax asset	2.6	-0.6	0.0	-0.4	-0.3	1.3

At December 31, 2007, the Group had tax losses carried forward of EUR 4.4 million (2006: EUR 4.3 million), for which deferred tax assets have not been recognized in the consolidated financial statements because the realization of the tax benefit is not probable. EUR 0.2 million of these tax losses will expire in years 2008 through 2013.

Deferred tax liability on undistributed earnings of subsidiaries has not been recognized in the consolidated balance sheet because distribution of the earnings is in the control of the Group and such distribution is not probable within the foreseeable future.

12. TANGIBLE ASSETS AND ASSETS HELD-FOR-SALE

EUR million

2007	Land	Buildings	Machinery and equipment	Other tangible assets	Advanced payments and construction in progress	Total
Acquisition cost Jan. 1	1.9	18.1	44.8	8.0	0.6	73.5
Additions		0.7	2.9	2.2	1.7	7.4
Acquisitions (see note 3)			0.1	0.0		0.1
Disposals	0.0	-0.1	-1.0	-0.6	-0.4	-2.1
Reclassifications 1)		0.0	1.0	0.2	-1.0	0.2
Transfer to assets held-for-sale	-0.2	-3.0				-3.2
Translation differences	0.0	-0.2	-1.3	-0.4	0.0	-2.0
Acquisition cost Dec. 31	1.7	15.5	46.4	9.4	0.9	73.9
Accumulated depreciation Jan. 1		-8.7	-31.4	-3.9		-44.0
Acquisitions (see note 3)						
Disposals		0.1	0.6	0.4		1.0
Reclassifications 1)		0.0	0.0	-0.1		-0.1
Transfer to assets held-for-sale		2.2				2.2
Depreciation during the period		-1.0	-3.8	-1.1		-5.9
Translation differences		0.1	1.0	0.2		1.3
Accumulated depreciation Dec. 31		-7.4	-33.5	-4.6		-45.5
Carrying value Jan. 1	1.9	9.4	13.4	4.1	0.6	29.4
Carrying value Dec. 31	1.7	8.1	12.9	4.8	0.9	28.4

2006	Land	Buildings	Machinery and equipment	Other tangible assets	Advanced payments and construction in progress	Total
Acquisition cost Jan. 1	2.0	18.4	42.9	6.5	0.3	70.1
Additions		0.3	4.7	1.5	1.3	7.7
Acquisitions (see note 3)			0.0	0.1		0.1
Disposals		0.0	-1.3	-0.4	-0.8	-2.4
Reclassifications 1)			-0.3	0.6	-0.2	0.1
Translation differences	-0.1	-0.5	-1.2	-0.4	0.0	-2.2
Acquisition cost Dec. 31	1.9	18.1	44.8	8.0	0.6	73.5
Accumulated depreciation Jan. 1		-7.9	-29.2	-3.2		-40.3
Acquisitions (see note 3)						
Disposals		0.0	0.6	0.1		0.7
Reclassifications 1)		0.0	0.0	0.0		0.0
Depreciation during the period		-1.0	-3.7	-1.0		-5.7
Translation differences		0.2	1.0	0.2		1.4
Accumulated depreciation Dec. 31		-8.7	-31.4	-3.9		-44.0
Carrying value Jan. 1	2.0	10.5	13.6	3.3	0.3	29.8
Carrying value Dec. 31	1.9	9.4	13.4	4.1	0.6	29.4

1) Includes reclassifications between intangible and tangible assets of EUR 0.1 million in 2007 (2006: EUR 0.1 million).

The acquisition value remaining after depreciation for machinery in tangible assets was EUR 11.7 million on December 31, 2007 (2006: EUR 11.1 million).

ASSETS LEASED BY FINANCE LEASE AGREEMENTS

EUR million	2007		2006	
	Buildings	Machinery and equipment	Buildings	Machinery and equipment
Carrying value Jan. 1	1.3	0.2	1.4	
Additions				0.1
Reclassifications		-0.1		0.1
Depreciation during the period	-0.1	-0.1	-0.1	-0.1
Translation differences	0.0	0.0	0.0	0.0
Carrying value Dec. 31	1.2	0.1	1.3	0.2
Accumulated depreciation Dec. 31	-0.5	-0.1	-0.4	-0.1
Acquisition cost Dec. 31	1.8	0.2	1.8	0.3

ASSETS HELD-FOR-SALE

As part of the consolidation of Rapala's French operations, Rapala signed a sale agreement for the warehouse and office building in Saint Marcel in January 2008. The plan is also to sell the warehouse and office building in Loudeac during 2008.

13. INTANGIBLE ASSETS

EUR million	2007			2006		
	Goodwill	Other intangible assets	Total	Goodwill	Other intangible assets	Total
Acquisition cost Jan. 1	45.4	12.1	57.5	47.5	11.3	58.8
Additions		0.2	0.2		0.3	0.3
Acquisitions (see note 3)	0.2	0.7	0.8	0.4	1.2	1.6
Disposals	-0.4	-0.3	-0.6		-0.3	-0.3
Reclassifications 1)		-0.2	-0.2		-0.1	-0.1
Translation differences	-1.8	-0.5	-2.3	-2.6	-0.3	-2.9
Acquisition cost Dec. 31	43.4	12.1	55.3	45.4	12.1	57.5
Accumulated depreciation Jan. 1		-4.2	-4.2		-3.7	-3.7
Disposals		0.3	0.3		0.1	0.1
Reclassifications 1)		0.1	0.1		0.0	0.0
Depreciation during the period		-0.5	-0.5		-0.6	-0.6
Translation differences		-0.1	0.1		0.0	0.0
Accumulated depreciation Dec. 31		-4.3	-4.3		-4.2	-4.2
Carrying value Jan. 1	45.4	7.9	53.3	47.5	7.6	55.1
Carrying value Dec. 31	43.4	7.7	51.1	45.4	7.9	53.3

1) Includes reclassifications between intangible and tangible assets of EUR 0.1 million in 2007 (2006:EUR 0.1 million).

Other intangible assets include trademarks, patents, licenses, computer software and customer relationships acquired in business combinations. Intangible assets are stated at cost, amortized on a straight line method over expected useful lives which vary from 3 to 10 years and adjusted for any impairment charges. The expected useful life for most trademarks is decades and therefore these intangibles are measured at cost less any accumulated impairment loss and not amortized. Goodwill is measured at cost less any accumulated impairment loss, and not amortized. Trademarks with indefinite lives and goodwill are tested for impairment annually.

GOODWILL AND TRADEMARKS WITH INDEFINITE LIVES BY BUSINESS SEGMENTS

EUR million	Lures	Fishing Hooks	Fishing Accessories	Third Party Fishing Products	Other Products	Total
2007						
Goodwill	32.2	0.8	7.0	2.1	1.3	43.4
Trademarks with indefinite lives	1.9	0.1	1.4	0.6	0.1	4.1
2006						
Goodwill	34.1	0.8	7.0	2.2	1.2	45.4
Trademarks with indefinite lives	1.5	0.0	1.4	0.5	0.0	3.4

IMPAIRMENT TESTING OF GOODWILL AND TRADEMARKS WITH INDEFINITE LIVES

The Group is led as a whole and not organized nor managed in segments. Most of the units are also strongly interlinked i.e. some units do not have a sales or a production organization or some other functions or operations needed to operate on a stand-alone basis. However, according to IFRS, the lowest cash-generating unit (CGU) cannot be larger than a segment based on either the entity's primary or the entity's secondary segment reporting. As a consequence, goodwill and trademarks with indefinite lives are tested on the business segment (product lines) level.

The recoverable amount of the CGU is determined based on value-in-use calculations. Cash flow projections, which were used in these calculations, were based on most recent 5-year financial forecasts prepared by the management and approved by the Board. The estimated sales and production volumes are derived from the utilization of existing property, plant and equipment. The most important assumptions on which management has based its cash flow projections are the sales and gross margins. Discount rate is the weighted average pre-tax cost of capital (WACC), which was 7% in 2007 (2006: 9%). The growth rate used to extrapolate the cash flow beyond the five-year period is 0% (2006: 0%). As a result of the performed impairment tests, no impairment losses have been recognized in 2007 or in 2006.

Key assumptions

Sales – The Group's estimated sales are based on present and future product assortment and utilization of distribution and manufacturing capacity. In addition, estimated sales are based on long-term growth of industry and further implementation of Group's strategic objectives.

EBITDA margin – The Group's estimated EBITDA margin, operating profit before depreciation and impairments compared to net sales, is based on past years actual margins and management's view on sales and gross margin development. The increase in general cost level has also been taken into account in the development of EBITDA margin.

Discount rate – Discount rate is the weighted average pre-tax cost of capital (WACC). Weighted average cost of capital represents the total cost of Group's equity and debt taken into account their different return requirements.

Growth rate – Compared to actual growth rates during past 5 years, management has been conservative in determining the growth rate for impairment purposes.

Sensitivity analysis

The key sensitivity for the impairment test is the EBITDA margin and discount rate. It is management's opinion that no probable change in any of the key sensitivities would lead to a situation where the carrying amount would exceed the recoverable amount. Even if EBITDA margin would be 20% lower than estimated by management or if the discount rate would be 20% higher than used in the management's calculations, it would not lead to an impairment loss in any of the cash generating units.

14. INVESTMENTS IN ASSOCIATED COMPANIES

The Group has a 33.3% interest in unlisted Lanimo Oü. Its main activity is producing leather-haberdashery. The carrying amount of Lanimo Oü does not include goodwill or impairments. Lanimo Oü's figures are based on the information for the financial period ending on September 30, due to differences in reporting time schedule. Information for the financial period ending on December 31, 2006 are the following: assets EUR 0.1 million, liabilities EUR 0.1 million, sales EUR 0.2 million and profit/loss EUR 0.0 million.

EUR million	2007	2006
Acquisition cost Jan. 1	0.0	0.0
Additions	0.0	0.0
Acquisition cost Dec. 31	0.0	0.0
INFORMATION ON LANIMO OÜ, ESTONIA		
Assets	0.1	0.0
Liabilities	0.1	0.0
Sales	0.2	0.2
Profit/loss	0.0	0.0
Ownership, %	33.3	33.3

15. AVAILABLE-FOR-SALE INVESTMENTS

EUR million	2007	2006
Carrying value Jan. 1	0.6	0.6
Additions	0.0	0.0
Fair value changes		0.1
Disposals		0.0
Translation differences	-0.1	0.0
Carrying value Dec. 31	0.6	0.6

Available-for-sale investments comprise of unlisted shares that are measured at fair value. Certain unlisted shares for which fair values cannot be measured reliably are measured at cost less possible impairment, which corresponds approximately to their fair value. The fair value changes of available-for-sale investments, net of tax, are recognized in shareholders' equity. Principal available-for-sale investments comprise of Kiinteistö Oy Brinkhaga, Kanavagolf Vääksy Oy, Arctic Circle Santa Claus Oy, As Oy Tahkon Eagle and BRF Morkullan.

16. INVENTORIES

EUR million	2007	2006
Raw material	9.0	8.5
Work in progress	7.0	6.6
Finished products	70.8	58.9
Net realizable value provisions	-2.4	-1.0
Total	84.3	73.0

In 2007 the carrying value of inventories differed from its net realizable value by EUR 2.4 million (2006: EUR 1.0 million).

17. RECEIVABLES

EUR million	2007	2006
Non-current receivables		
Interest-bearing		
Loan receivables	0.0	0.0
Non-interest-bearing		
Other receivables	0.1	0.0
Current receivables		
Interest-bearing		
Loan receivables	0.0	0.0
Other receivables	0.1	0.1
Non-interest-bearing		
Trade receivables	47.1	46.0
VAT receivable	1.4	1.0
Prepaid insurance expenses	0.2	0.4
Other prepaid expenses and accrued income	2.4	3.3
Other receivables	2.8	3.7
Valuation allowance for trade receivables	-1.8	-1.7
Total	52.4	52.8

Due to their short maturity, the fair value of current receivables is regarded as corresponding to their original carrying amount.

The weighted average interest rate of non-current loan receivables in 2007 was 8.00% (2006: 4.00%). The weighted average interest rate of current loan receivables at December 31, 2007 was 5.61% (2006: 3.95%). Loan receivables are based on floating rates, in which case their fair value is regarded as corresponding to their book value.

Other current interest-bearing receivables include interest receivable and deposits with maturities of over three months.

CREDIT LOSS ALLOWANCE FOR TRADE RECEIVABLES

EUR million	2007	2006
Credit loss allowance for trade receivables Jan. 1	1.7	1.7
Additions	0.7	0.7
Deductions	-0.6	-0.7
Recovery	0.0	0.0
Translation differences	-0.1	0.0
Credit loss allowance for trade receivables Dec. 31	1.8	1.7

In most cases a credit loss allowances are determined individually, when there is objective evidence (such as significant overdue of receivables and unsuccessful dunning attempts or known financial difficulties and thus increased probability of customer insolvency) that the Group will not be able to collect all amounts due according to the original terms of the receivables. Credit allowances have not been made on other receivables.

18. CASH AND CASH EQUIVALENTS

EUR million	2007	2006
Cash at bank and in hand	21.7	23.3
Short-term deposits	5.7	1.1
Total	27.3	24.4

Fair value of cash and cash equivalents does not differ significantly from the carrying value.

19. EQUITY ATTRIBUTABLE TO SHAREHOLDERS

EUR million	2007	2006
Share capital Jan. 1	3.5	3.5
Private offering	0.1	
Shares subscribed with options	0.0	0.0
Share capital Dec. 31	3.6	3.5
Share premium fund Jan. 1	16.7	16.3
Shares subscribed with options	0.0	0.4
Share premium fund Dec. 31	16.7	16.7
Fair value reserve Jan 1.	0.1	
Gains and losses on cash flow hedges	0.0	
Fair value gains on available-for-sale investments, net of tax		0.1
Fair value reserve Dec. 31	0.0	0.1
Fund for invested non-restricted equity Jan. 1		
Private offering	4.9	
Fund for invested non-restricted equity Dec. 31	4.9	
Retained earnings Jan. 1	60.5	55.5
Translation differences	-3.4	-2.6
Gains and losses on hedges of net investments	0.7	0.0
Dividends paid	-4.6	-4.2
Share option program	0.4	0.8
Other changes	0.0	0.2
Net income for the period	17.3	10.8
Retained earnings Dec. 31	70.9	60.5

Translation differences contain exchange differences arising from the currency translation of foreign subsidiaries' financial statements and exchange differences arising from a monetary item that forms part of a net investment in a foreign company. Translation differences also contain fair value changes from hedging the net investment in foreign companies where this meets the conditions for hedge accounting. Fair value reserve includes movements in the fair values of available-for-sale financial assets and derivative instruments used for cash flow hedging.

DIVIDENDS

For more details on dividends, see note 31.

SHARES AND SHARE CAPITAL

On December 31, 2007, the share capital fully paid and reported in the Trade Register was EUR 3.6 million and the total number of shares was 39 468 449 (2006: 38 576 269), which is divided to two series: 38 578 769 old shares (trading code RAP1V) and 889 680 new restricted shares (RAP1VN0107). The book value of a share is EUR 0.09. Each share from both series is entitled to one vote. New restricted shares grant its holders the same rights as the old shares, except that these new shares will not give right to dividend paid from financial year 2007 and there is a lock-up period of 12 months. The new restricted series of shares shall be combined to the old series of shares as soon as the difference regarding the right to dividend between the series no longer exists i.e. October 24, 2008.

CHANGES IN SHARE CAPITAL IN 2007

In March 2007, 2 500 new shares where subscribed with 2003A option rights. The share capital increased with EUR 225.00 and the subscriptions were registered in the Trade Register on April 4, 2007 and listed on the main list of the OMX Nordic Exchange Helsinki on April 5, 2007. All 500 000 shares have now been subscribed with 2003A option rights.

In October 2007, 889 680 new shares were issued to Shimano for the subscription price of EUR 5.62 per share, which represented a three-month weighted average share price for the share from June 27 to September 27. The share capital increase of EUR 80 071.20 corresponding to the subscription was registered in the Trade Register on October 24, 2007. The new shares where listed as a new series of shares on the main list of the OMX Nordic Exchange Helsinki on October 25, 2007.These new shares will not give right to dividend paid from the financial year 2007 and they have a lock-up period of 12 months. The new restricted series of shares shall be combined to the old series of shares as soon as the difference regarding the right to dividend between the series no longer exists i.e. October 24, 2008. As a result of the share capital increase, Rapala's share capital was EUR 3 552 160.41 and the total number of outstanding shares 39 468 449 at December 31, 2007.

BOARD'S AUTHORIZATIONS

Based on authorization given by the Annual General Meeting (AGM) in April 2007, the Board can decide to issue shares through issuance of shares, options or special rights entitling to shares in one or more issues. The number of new shares to be issued including the shares to be obtained under options or special rights shall be no more than 10 000 000 shares. This authorization includes the right for the Board to resolve on all terms and conditions of the issuance of new shares, options and special rights entitling to shares, including issuance in deviation from the shareholders' preemptive rights. This authorization is in force for a period of 5 years from the resolution by the AGM. The Board is also authorized to resolve to repurchase a maximum of 2 000 000 shares. This amount of shares corresponds to less than 10% of all shares of the company. The shares may be repurchased either through a tender offer made to all shareholders on equal terms, or through public trading from the market. This authorization is in force until September 30, 2008.

SHARE BASED PAYMENTS

For more details on share based payments, see note 29.

20. EMPLOYEE BENEFIT OBLIGATIONS

Most of the Group´s pension plans are defined contribution plans. The Group has defined benefit pension plans only in France, Canada and Sweden. In French plans retirement benefits are determined based on salary and period of employment. These French obligations are unfunded. The supplementary pension arrangement to the CEO of subsidiary in Canada is classified as a funded defined benefit plan. ITP-pension plans operated by Alecta in Sweden are multi-employer defined benefit pension plans. However, it has not been possible to get sufficient information for the calculation of obligations and assets by employer from plan operations, and therefore these plans have been accounted for as defined contribution plans in the financial statements. From Group's point of view the Swedish plans are not significant. The Group has no other post-employment benefit obligations. The pension security of the personnel of the Group's Finnish companies is arranged under the Finnish statutory employee pension plan (TYEL) through an external pension insurance company.

EUR million	2007	2006
EXPENSES RECOGNIZED IN THE INCOME STATEMENT		
Current service cost	-0.2	0.0
Interest cost	0.0	0.0
Actuarial gains and losses	0.0	0.0
Effect of any curtailments or settlements	0.2	
Total	-0.1	0.0
AMOUNTS RECOGNIZED IN THE BALANCE SHEET		
Present value of funded obligations	0.1	
Fair value of plan assets	-0.1	
Present value of unfunded obligations	0.7	0.9
Unrecognized actuarial gains/losses	0.1	-0.2
Unrecognized prior service cost	0.0	
Net obligations	0.7	0.7
BALANCE SHEET RECONCILIATION		
Obligations Jan. 1	0.7	0.7
Current service cost	0.2	0.0
Interest cost	0.0	0.0
Actuarial gains and losses	0.0	0.0
Effect of any curtailments or settlements	-0.2	
Paid contributions	0.0	0.0
Obligations Dec. 31	0.7	0.7
MOVEMENT IN PLAN ASSETS		
Fair value of plan assets on Jan. 1		
Contributions paid into the plans	0.1	
Expected return on plan assets	0.0	
Fair value of plan assets on Dec. 31	0.1	

Plan assets comprise of cash.

ASSUMPTIONS %	Canada	France
2007		
Discount rate	5.3	5.5
Future salary increase	4.0	2.5
Annual inflation rate	2.5	2.0
Expected return on plan assets	6.0	
2006		
Discount rate		4.5
Future salary increase		2.5
Annual inflation rate		2.0

AMOUNTS FOR CURRENT AND PREVIOUS THREE PERIODS

EUR million	2007	2006	2005	2004
Present value of funded obligations	0.1			
Fair value of plan assets	-0.1			
Present value of unfunded obligations	0.7	0.9	0.8	0.8
Experience adjustment on plan assets				
Experience adjustment on plan liabilities	-0.1	0.1	0.0	0.0

The Group expects to contribute EUR 0.0 million to its defined benefit pension plans in 2008.

21. PROVISIONS

EUR million	2007	2006
Restructuring provisions		
Provisions Jan. 1		
Additions	3.6	
Utilized provisions	-0.4	
Provisions Dec. 31	3.2	
Warranty provisions		
Provisions Jan. 1	0.1	0.1
Provisions Dec. 31	0.1	0.1
Other provisions		
Provisions Jan. 1	1.9	1.6
Additions	0.0	1.0
Utilized provisions	-1.8	-0.3
Reclassification 1)	-0.1	-0.3
Translation differences	0.0	0.0
Provisions Dec. 31	0.1	1.9
Non-current	0.1	0.9
Current	3.2	1.1
Total provisions	3.3	2.0

1) Includes reclassifications between provisions and accrued liabilities and deferred income of EUR 0.1 million in 2007 (2006: EUR 0.3 million).

Other provisions include distinct provisions, but no amounts which are individually significant. Restructuring and other provisions are expected to realize within the next 12 months.

RESTRUCTURING PROVISIONS

In the last quarter of 2007, Group booked a restructuring provision of EUR 2.5 million relating to the consolidation of operations in France. In the restructuring, distribution from Loudeac (Ragot) and Saint Marcel (Waterqueen) and fishing line business of Saint Marcel (Tortue) are moved to Morvillars and also the distribution of VMC Europe is moved to the same premises. The relocation of Ragot was completed in 2007. Other units will be relocated next summer at the latest. Restructuring provision was booked when discussions with personnel and trade unions where completed.

In the fourth quarter, Group also booked a restructuring provision of EUR 1.1 million for the costs related to the closing of the factory in Ireland. The decision of closing was part of the European restructuring and development of lure manufacturing operations. The manufacturing operations in Ireland will end by summer 2008. The manufacturing functions of the factory will be taken over by the Group's lure factory in Estonia that will continue finalizing, testing and packaging the products.

22. FINANCIAL RISK MANAGEMENT AND DERIVATIVE FINANCIAL INSTRUMENTS

The main objective of the Group's financial risk management is to reduce the impacts of price fluctuations in financial markets and other factors of uncertainty on earnings, cash flows and balance sheet, as well as to ensure sufficient liquidity. The Board has approved the Group's risk management principles and CEO is responsible, together with the Group's finance management, for development and implementation of financial risk management procedures.

In 2007, the Group increased its emphasis on risk management by recruiting a Group Risk Manager to manage and develop Group's risk management processes. Group Risk Management, consisting of the CFO, Group Treasurer and Group Risk Manager, review financial risks on regular basis to manage the Group's financial risk position and decide on necessary actions to manage financial risks.

Financial risks consist of market risks, credit and default risks and liquidity risks. This note also presents the Group's capital management.

MARKET RISK

The Group's market risks are mainly caused by changes in foreign exchange and interest rates. These changes may have a significant impact on the Group's earnings, cash flows and balance sheet. The Group is also exposed to market price changes of certain raw materials mainly metals, which are priced on commodity markets.

1. Foreign Exhange Risks

Major part of the Group's sales is in euros and US dollars. Also a significant part of expenses arise in euros, US dollars as well as HK dollars and Chinese yuans (renminbi), of which especially HK dollar closely follows US dollar. Group Risk Management monitors regularly the balance between Group's foreign currency sales and expenses as well as the development of the key currencies. There is quite a good balance between the income and expenses in different currencies, which provide quite an effective hedge in it self. This has also affected the Group's principle not to hedge all transactions nor all open positions.

In order to mitigate adverse impacts of foreign exchange movements on sales and purchases as well as forecasted cash flows and firm commitments, the Group uses derivative instruments. Derivative instruments are in most cases short term and with aim to hedge some proportion of the next season's foreign currency nominated sales or purchases. Instruments used may consist of foreign currency forward contracts, option contracts or combination instruments. Business units do most of their currency hedging against the Group's parent company. Group Risk Management monitors the Group's consolidated risk position and exercises external derivative instruments in line with general guidance and instructions set by the Board and CEO.

Group does not apply IAS 39 (hedge accounting) for the currency derivatives made to fix exchange rates of sales and purchases, but the derivatives are used for the purpose of reducing adverse impacts of market price changes on net earnings and cash flows related to business and financing activities. All derivatives are initially recognized at fair value on the date the derivative contract is entered into, and are subsequently remeasured at fair value on each balance sheet date. The underlying hedged foreign currency denominated transaction will however take place at a later date. As IAS 39 (hedge accounting) is not applied, these derivatives cause timing differences between the Group's exchange gains/losses and sales/purchases.

Currently, all currency derivatives used by the Group are short-term standard and modified foreign currency forwards to which IAS 39 (hedge accounting) is not applied. Fair values of standard foreign currency forwards are determined by discounting the future nominal cash flows with relevant interest rates and then converting the discounted cash flows to the functional currency using spot rates. The fair values of modified foreign currency forwards are received from banks. All changes in fair value of currency derivatives are recognized in the income statement. In 2007, currency derivatives had an income statement effect of EUR -0.1 million (2006: EUR 0.1 million). Fair values of currency derivatives are summarized under section 4. Derivatives.

As a result of sales and purchases in foreign currencies as well as operations in several jurisdictions, Group has foreign currency denominated receivables and payables. These are revalued at each balance sheet date and consequently exposed to foreign exchange rate movements. Depending on whether foreign currency monetary receivable and payables relate to sales and purchases or financial items, the foreign exchange gains/losses are booked above or below operating profit.

Group Risk Management regularly monitors the balance between foreign currency denominated monetary receivables and payables and takes actions to increase or decrease the hedge if necessary and financially feasible.

The Group has its external loan payable portfolio in several foreign currencies and it aims to use them to partially hedge loans and accounts receivable as well as net income in these foreign currencies. However, the foreign exchange impacts on these do not always meet in the same section of the income statement. The purpose of this hedging is though to reduce the adverse impact of currency movements on the Group's net income and equity.

The Group has net investments in subsidiaries whose equity is in foreign currency and thus exposed to foreign exchange rate movements when translated into euro. In 2007, the Group started to partially hedge its net investments in USD, AUD, JPY and NOK currency denominated foreign subsidiaries using equivalent currency loans payable. The Group plans to start to partially hedge its net investment also in SEK currency denominated foreign subsidiaries during 2008. Hedging relationships are treated according to IAS 39 as effective hedges of a net investment in a foreign subsidiary, which means that the effective portion of foreign exchange effect on these loans is recorded directly in equity. The total non-euro-denominated equity of the Group's foreign subsidiaries was EUR 71.8 million on December 31, 2007 (2006: EUR 68.9 million), of which 8.8% was subject to equity hedging. If the currencies that are linked to euro (DKK, EEK and LTL) were excluded, hedge rate was 10.9%.

Group Risk Management monitors regularly the amounts of foreign exchange nominated net investments and decides on equity hedging actions accordingly.

Hedging of Net Investments in Foreign Subsidiaries

2007	Total net investment (currency million)	Loans used for hedging (currency million)	Total net investment (EUR million)	Loans used for hedging (EUR million)	Hedge rate (%)	Booked in translation difference in equity (EUR million)
Non-euro currency						
USD	29.7	3.0	20.2	2.0	10.1	0.7
AUD	4.8	3.0	2.9	1.8	62.0	0.0
NOK	15.2	16.0	1.9	2.0	105.3	0.0
JPY	91.5	75.0	0.6	0.5	82.0	0.0
Other			46.2			0.0
Total			71.8	6.3	8.8	0.7

Exposure to Foreign Exchange Risk from Transactions

Foreign currency exposure in companies whose reporting currency is other than the currency under analysis. The effect of other currencies is smaller.

EUR million	2007			2006		
	USD	CNY	EUR	USD	CNY	EUR
Foreign currency trade receivables Dec. 31.	9.0	0.1	0.3	16.4		0.4
Foreign currency trade payables Dec. 31.	-9.8	-4.5	-3.9	-5.6	-0.4	-2.8
Foreign currency loans receivable Dec. 31.	13.5			11.1		
Foreign currency loans payable Dec. 31. 1)	-31.4		-3.3	-31.7		-2.5
Net exposure in balance sheet Dec. 31.	-18.7	-4.4	-6.9	-9.8	-0.4	-4.9
Actual foreign currency sales	46.7		0.5	35.2		1.0
Actual foreign currency purchases	-41.7	-19.3	-14.6	-30.0	-16.7	-13.0
Net exposure in income statement	5.0	-19.3	-14.0	5.3	-16.7	-12.0
Currency derivatives Dec. 31. 2)	7.3					
Net exposure	-6.5	-23.7	-20.9	-4.5	-17.1	-16.9

1) Excluding loans used for hedging net investments in foreign subsidiaries.

2) Currency derivatives are used to hedge a portion of purchases in foreign currency.

Sensitivity Analysis

The effect of a 10% weakening of USD, HKD, CNY, AUD, NOK, CAD and SEK against euro assuming that all other variables remain unchanged. This sensitivity includes both the effect from foreign currency transactions and translation of subsidiaries reporting in non-euro currency. In order to give an accurate picture, the sensitivity analysis includes, in addition to financial assets and liabilities, the impact of non-euro income statement items. It also includes the effect of hedging of net investments and cash flow. The effect of other currencies is smaller.

EUR million

2007	USD	HKD	CNY	AUD	NOK	CAD	SEK
Operating profit	-2.2	0.9	2.4	-0.5	-0.5	-0.8	-0.5
Net income	0.0	0.9	2.4	-0.6	-0.5	-0.7	-0.7
Equity 3)	-1.6	-1.1	0.0	-0.1	0.0	-0.8	-0.3
2006							
Operating profit	-2.9	0.7	1.5	-0.3	-0.5	-0.5	-0.5
Net income	-0.6	0.7	1.5	-0.5	-0.7	-0.5	-0.3
Equity 3)	-2.1	-1.2	0.0	-0.2	-0.3	-0.6	-0.1

3) Without the effect on net income.

A 10% strengthening would have the equal but opposite effect with exection of USD, where 10% strenghening would have EUR 0.2 million smaller opposite effect on operating profit and net income than stated above as a result of used hedging instruments.

2. Interest Rate Risk

The Group has interest-bearing borrowings, where the interest is variable and connected to market rates. Consequently the Group is exposed to changes in market interest rates.

EUR million	2007		2006	
	Non-current	Current	Non-current	Current
Loans from financial institutions with fixed interest rate	0.3	0.1	0.5	0.0
Loans from financial institutions with variable interest rate	48.0	42.5	62.4	59.0
Commercial paper program with variable interest rate		15.0		

The Group's borrowings are mainly in euros and US dollars, which have a substantial contribution to the overall interest rate risk. The Group's borrowings are almost fully flowing through the Group's parent company, which is consequently managing the Group's overall interest rate risk. The Group's interest rate risk is monitored as cash flow and fair value risks. Group Risk Management analyzes regularly the interest risk and agree on actions if needed. These actions may include changing the currency split of the external loan portfolio, selection between different sources of loan financing, changing the interest rate periods as well as entering into derivative financial instruments available to manage the interest rate risk. The Group does not have a fixed policy on how interest rates are fixed to different time periods, but this is decided based on prevailing market conditions.

Most of the Group's interest-bearing liabilities have an interest period of less than one year. In order to manage the interest rate risk and to take benefit of favorable interest rate levels, EUR 12.9 million of the Group's loans payable is fixed to a 12-month or longer interest period.

The interest rate risk may also be managed by using interest rate swaps, where the Group pays a fixed rate and receives variable rate. The Group applies IAS 39 (hedge accounting) for these interest rate derivatives. The fair values of interest rate derivatives have been calculated using a discounted cash flow method and are received from the bank. In 2007, as IAS 39 effectiveness requirements were fulfilled, interest rate derivatives had no income statement effect but had an equity effect of EUR -0.0 million. Fair values of interest rate derivatives are summarized under section 4. Derivatives.

Sensitivity Analysis

The effect of liabilities with variable interest rate and interest rate swap on net income and equity if there was a 1% change in interest rates, assuming that all other variables, in particular foreign exchange rates, remain unchanged.

EUR million	2007		2006	
	Net income	Equity 4)	Net income	Equity 4)
Loans from financial institutions with variable interest rate	-0,9	0,2	-1,2	
Commercial paper program with variable interest rate	-0,1			

4) Without the effect on net income.

3. Other Market Price Risks

The Group purchases some raw-materials, which are priced on regulated markets. These include commodity metals such as copper, zinc and lead. The value of these purchases is still relatively low and market price risk management actions are done in each manufacturing unit locally. Group Risk Management also monitors the development of these raw-material prices. No commodity hedging is currently carried out.

The Group does not own any such publicly traded shares or securities which would be subject to market price risks. The Group's investments in available-for-sale financial instruments are insignificant and consist of real estate investments and other unlisted shares for which no clear market price exists.

4. Derivatives

EUR Million	2007			2006
	Foreign currency forwards	Interest rate swaps	Total	Foreign currency forwards
Nominal amount	7.9	12.9	20.8	1.0
Negative fair values	0.1	0.0	0.2	0.0
Net fair values	-0.1	0.0	-0.2	0.0

All foreign currency forwards mature within the next 12 months. The cash flows of the interest rate swap agreement terminating in 2010 mature as follows: EUR 0.0 million during year 2008, EUR 0.0 million during year 2009 and EUR 0.0 million during year 2010.

CREDIT AND DEFAULT RISK

The Group's accounts receivables are generated by a large number of customers worldwide. Consequently, the credit risk is spread against multiple counterparties. The credit risk management is allocated to each operative business unit. Before providing credit to any new customer, background checks are carried out. Cash, advance payments and letters of credit are also applied with new and existing customers. Customer specific credit limits and financial situation of the existing credit customers are monitored and set locally in each business unit. Customers' payment behavior is monitored regularly and delays in payments may trigger payment reminders, stopping the shipments, requirements for advance payments for future shipments and eventually legal collection procedures. In significant cases, business units consult with the CFO or Group Risk Manager before final decisions. In exceptional cases, payment terms may be renegotiated. In one country, credit risk is further reduced with credit insurance.

Group Risk Management manages most of the credit and default risk related to financial instruments. It seeks to reduce these risks by limiting the counterparties to banks, which have a good credit standing. All investments related to liquidity management are made in liquid instruments with low credit risk. For instance commercial paper investments are not made.

The Group's maximum credit and default risk is the carrying amount of all financial assets which are disclosed in note 23.

For information on credit loss allowance for trade receivables, see note 17. A credit loss allowance of trade receivables is made when there is objective evidence (such as significant overdue of receivables and unsuccessful dunning attempts or known financial difficulties and thus increased probability of customer insolvency) that the Group will not be able to collect all amounts due according to the original terms of the receivables. The assessment and decision for credit loss allowances is done locally in each business unit on case-by-case basis.

No credit loss allowance is made on overdue trade receivables from customers, whose solvency is considered solid.

Analysis of Trade Receivables that Where Due but Not Impaired

EUR million	2007	2006
Neither past due or impaired	33.6	31.6
Past due but not impaired		
Less than 1 month	5.1	6.4
1-3 months	3.6	3.4
4-5 months	1.8	2.2
6-7 months	0.8	0.6
Over 7 months	0.5	0.1
Total	45.4	44.3

LIQUIDITY RISK

Generally, the seasonality of the Group's cash flow is fairly predictable and Group's finance management monitors Group's liquidity position regularly.

Group's finance management raises most of the Group's interest-bearing debt centrally. The Group seeks to reduce liquidity and refinancing risks with balanced maturity profile of loans as well as by keeping sufficient amount of credit lines available. Flexibility of the Group's liquidity management was increased in 2007 by launching a EUR 25.0 million domestic commercial paper program, which together with Group's credit limits is utilized to balance the seasonality of the Group's cash flow. The size and maturity of issued commercial papers is decided by the CFO and Group Treasurer, based on forecasted cash flows, status of commercial paper markets and applicable interest rates. The renewal of commercial papers upon maturity creates certain liquidity risk, which is managed by maintaining sufficient other liquidity reserves available at the maturity dates.

The Group will introduce an international cash pooling system to further enhance its liquidity management in 2008.

The Group's credit limit not drawn at December 31, 2007 was EUR 43.3 million (2006: EUR 16.7 million). Group's domestic commercial paper program not sold at December 31, 2007 was EUR 10.0 million (2006: EUR 25.0 million).

Maturity of The Group's Financial Liabilities

The following are the contractual maturities of financial liabilities, including interest payments.

EUR million

2007	Carrying value	Financial liabilities *	Contractual cash flows	2008	2009	2010	2011	2012	Later	Total
Interest-bearing liabilities										
Loans from financial institutions	90.8	90.8	99.1	46.5	11.8	11.1	10.8	9.6	9.3	99.1
Commercial paper program	15.0	15.0	15.0	15.0						15.0
Finance lease	1.6	1.6	2.5	0.2	0.2	0.2	0.2	0.2	1.6	2.5
Currency derivatives, non-hedge accounted	0.1	0.1	0.1	0.1	0.0	0.0				0.1
Interest rate derivatives, hedge accounted	0.0	0.0	0.0	0.0	0.0					0.0
Other interest-bearing liabilities 1)	0.7	0.7	0.1	0.0						0.1
Non-interest-bearing liabilities										
Provisions	3.3									
Trade and other non-interest-bearing payables	37.0	25.7	25.7	25.7						25.7
Total	148.6	133.9	142.4	87.5	12.0	11.3	11.0	9.8	10.9	142.4

2006	Carrying value	Financial liabilities *	Contractual cash flows	2007	2008	2009	2010	2011	Later	Total
Interest-bearing liabilities										
Loans from financial institutions	121.9	121.9	132.3	64.3	12.9	12.2	12.3	10.6	19.9	132.3
Finance lease	1.8	1.8	2.7	0.3	0.2	0.2	0.2	0.2	1.8	2.7
Currency derivatives, non-hedge accounted	0.0	0.0	0.0	0.0						0.0
Other interest-bearing liabilities 1)	0.8	0.8								
Non-interest-bearing liabilities										
Provisions	2.0	1.1	1.1	0.2	0.9					1.1
Trade and other non-interest-bearing payables	28.1	19.9	19.9	19.9						19.9
Total	154.6	145.5	156.0	84.6	14.0	12.4	12.5	10.8	21.7	156.0

* The proportion of the carrying value which is classified as financial liabilities according to IAS 39.

1) Maturity of interest payable has been presented in the contractual cash flows of loans from financial institutions and commercial paper program.

CAPITAL RISK MANAGEMENT

The objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and to maximize shareholder value. Therefore, the Group seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

The Group manages its capital structure and makes adjustments to it taking into account changes in economic conditions and requirements of strategy implementation. To maintain or develop the capital structure, the Group may adjust the dividend payments and repayments of capital to shareholders by buying back shares, issue new shares and/or increase/decrease the amount of borrowings.

The Group monitors the effectiveness of its capital management using gearing ratio, return on equity, average interest rate on net interest-bearing debt, net interest-bearing debt to EBITDA and equity-to-assets ratio. The Group objective for capital management is to keep:

1. Gearing ratio below 150%,
2. Return on equity clearly above the average interest rate on net interest-bearing debt,
3. Net interest-bearing debt to EBITDA below 4.5, and
4. Equity-to-assets ratio above 30%.

For definitions of key figures, see page 41.

EUR million	2007	2006
Non-current interest-bearing liabilities	49.8	64.6
Current interest-bearing liabilities	58.4	59.9
Cash and cash equivalents	27.3	24.4
Interest-bearing receivables	0.8	0.7
Net interest-bearing debt at the end of the period	80.2	99.3
Total equity Dec. 31	96.9	81.3
Debt-to-equity (gearing) ratio, %	82.8	122.2
Net profit for the period	17.5	11.0
Total equity Jan. 1	81.3	75.4
Total equity Dec. 31	96.9	81.3
Total equity (average for the period)	89.1	78.3
Return on equity, %	19.7	14.1
Paid net interest expense	5.7	5.0
Net interest-bearing debt Dec. 31	80.2	99.3
Average interest rate on net interest-bearing debt, %	7.1	5.0
Net interest-bearing debt at the end of the period	80.2	99.3
Operating profit before depreciation and impairments (EBITDA)	33.8	28.0
Net interest-bearing debt to EBITDA	2.4	3.5
Total equity	96.9	81.3
Total shareholders' equity and liabilities - advances received	253.5	243.5
Equity-to-assets ratio, %	38.2	33.4

In 2007, the Group met its objectives for capital management:

1. Gearing ratio was 82.8% (2006: 122.2%),
2. Return on equity, 19.7% (2006: 14.1%), was clearly higher than the average interest rate on net interest-bearing debt, which was 7.1% (2006: 5.0%).
3. Net interest-bearing debt to EBITDA was 2.4 (2006: 3.5).
4. Equity-to-assets ratio was 38.2% (2006: 33.4%).

The Group capital structure is reviewed by the Board annually. The Group is not subject to externally imposed capital requirements other than the financial covenants set by the banks.

23. FINANCIAL ASSETS AND LIABILITIES BY CATEGORIES

EUR million	Note	2007 Carrying value	2007 Financial assets and liabilities *	2007 Fair value of financial assets and liabilities *	2006 Carrying value	2006 Financial assets and liabilities *	2006 Fair value of financial assets and liabilities *
Loans and receivables							
Non-current financial assets							
Loan receivables	17	0.0	0.0	0.0	0.0	0.0	0.0
Non-interest-bearing receivables	17	0.1	0.1	0.1	0.0	0.0	0.0
Current financial assets							
Cash and cash equivalents	18	27.3	27.3	27.3	24.4	24.4	24.4
Loan receivables	17	0.0	0.0	0.0	0.0	0.0	0.0
Other interest-bearing receivables	17	0.1	0.1	0.1	0.1	0.1	0.1
Trade and other non-interest-bearing receivables	17	52.2	50.9	50.9	52.6	51.6	51.6
Available-for-sale financial assets							
Available-for-sale investments	15	0.6	0.6	0.6	0.6	0.6	0.6
Financial liabilities at fair value through income statement - held-for-trading							
Currency derivatives - non-hedge accounted	22,24	0.1	0.1	0.1	0.0	0.0	0.0
Hedge accounted derivatives							
Interest rate derivatives - hedge accounted	22,24	0.0	0.0	0.0			
Financial liabilities measured at amortized cost							
Non-current financial liabilities							
Loans from financial institutions	24	48.2	48.2	48.2	62.9	62.9	62.9
Finance lease	24	1.5	1.5	1.5	1.7	1.7	1.7
Other interest-bearing liabilities	24	0.1	0.1	0.1			
Provisions	21	0.1			0.9	0.9	0.9
Current financial liabilities							
Loans from financial institutions	24	42.6	42.6	42.6	59.0	59.0	59.0
Commercial paper program	24	15.0	15.0	15.0			
Finance lease	24	0.1	0.1	0.1	0.1	0.1	0.1
Other interest-bearing liabilities	24	0.6	0.6	0.6	0.8	0.8	0.8
Trade and other non-interest-bearing payables	25	37.0	25.7	25.7	28.1	19.9	19.9
Provisions	21	3.2			1.1	0.2	0.2

* The proportion of the carrying value which is classified as financial assets and liabilities according to IAS 39.

24. INTEREST-BEARING LIABILITIES

EUR million	2007 average interest rate, %	2007	2006
Non-current interest-bearing liabilities			
Loans from financial institutions	5.09	48.2	62.9
Finance lease	5.23	1.5	1.7
Derivatives		0.0	
Other non-current liabilities		0.1	
Current interest-bearing liabilities			
Loans from financial institutions	5.56	42.6	59.0
Commercial paper program	4.82	15.0	
Finance lease	5.24	0.1	0.1
Derivatives		0.1	0.0
Other current liabilities		0.6	0.8
Total		108.3	124.5

All significant non-current interest-bearing loans are based on floating rates, in which case their fair value is regarded as equaling their book value. Due to their short maturity, the fair value of current interest-bearing liabilities is regarded as corresponding to their book value.

The fair value of finance lease liabilities corresponds to their book value. The fair value of finance leases is based on discounted future cash flows. The discount rate used corresponds to that applied to similar finance leases.

Other current liabilities include interest payable.

INTEREST-BEARING LIABILITIES BY CURRENCY

EUR million	2007		2006	
	Non-current	Current	Non-current	Current
Loans from financial institutions and commencial paper program				
EUR	25.4	22.5	31.4	38.7
USD	21.5	24.7	28.9	4.6
NOK		4.9		5.7
SEK				3.2
AUD	0.1	1.8	0.1	2.7
DKK	1.2	0.3	1.7	
ZAR		0.6		2.4
JPY		0.5		1.0
PLN		0.8	0.8	
CFH		1.5		0.6
Other				0.1
Finance lease				
DKK	1.5	0.1	1.6	0.1
Other	0.0	0.0	0.0	0.0
Total	49.7	57.7	64.6	59.0

FINANCE LEASE

EUR million	2007		2006	
	Minumum lease payments	Present value of payments	Minumum lease payments	Present value of payments
Within one year	0.2	0.1	0.2	0.1
1-3 years	0.3	0.2	0.4	0.2
3-5 years	0.3	0.2	0.3	0.2
Later than 5 years	1.6	1.2	1.8	1.3
Total minimum lease payments	2.5	1.6	2.7	1.8
Less future finance charges	-0.9		-1.0	
Present value of minimum lease payments	1.6	1.6	1.8	1.8

The Group has a finance lease contract for a building in Denmark. This lease has terms of purchase option and escalation clauses but no renewal option. Other finance lease contracts are for machinery and equipment and are not individually significant.

25. NON-INTEREST-BEARING LIABILITIES

EUR million	2007	2006
Current non-interest-bearing liabilities		
Advances received	0.1	0.1
Trade payables	18.6	12.7
Accrued employee-related expenses	10.3	7.6
VAT payable	1.0	0.6
Other accrued expenses and deferred income	4.9	5.3
Other current liabilities	2.0	1.8
Total	37.0	28.1

Due to their short maturity, the fair value of non-interest-bearing liabilities is regarded as corresponding to their book value.

26. COMMITMENTS AND CONTINGENCIES

EUR million	2007	2006
COMMITMENTS		
On own behalf		
Business mortgages	16.1	16.6
Property mortgages		0.3
Pledges		0.8
Guarantees	3.1	1.1
On behalf of other parties		
Guarantees	0.6	0.6
Total	19.7	19.3

The mortgages given as security for own commitments include business mortgage of the parent company of EUR 16.1 million. Since Normark Sport Finland Oy, a 100% owned subsidiary of Rapala VMC Corporation, is the legal shareholder of the new distribution joint venture with Shimano, the parent company has guaranteed to Shimano the fulfillment of its subsidiary's obligations related to the joint venture.

DISPUTES AND LITIGATIONS

In the beginning of 2008, the Group is finalizing its appeal to Administrative Court against the tax adjustment made by Finnish tax authorities concerning the taxation of Group's parent company for years 2004-2007. As per 31.12.2007, the additional tax cost, including delay penalties, caused by Finnish tax authorities' disputed interpretation, is EUR 2.7 million.

The Group's management does not have knowledge of any other open disputes or litigations, which would have a significant impact on the Company's financial position.

27. LEASE CONTRACTS

THE GROUP AS A LESSEE

EUR million	2007	2006
Future minimum rental payable under non-cancellable operating lease commitments		
Within one year	2.9	3.2
1-3 years	3.6	4.4
3-5 years	1.2	3.1
Later than 5 years	1.9	1.8
Total	9.5	12.6

The Group leases offices, warehouses and manufacturing facilities under several non-cancellable operating leases. The leases have varying terms and lengths, some of which may contain renewal options.

THE GROUP AS A LESSOR

EUR million	2007	2006
Future minimum rental payable under non-cancellable operating lease commitments		
Within one year	0.1	0.1
1-3 years	0.1	0.2
3-5 years		0.0
Total	0.2	0.3

Some of the offices, warehouses and manufacturing facilities that are currently not used by the Group are leased to external parties. The leases have varying terms and lenghts, some of which may contain renewal options.

28. RELATED PARTY TRANSACTIONS

Subsidiaries owned directly or indirectly by the parent company have been listed in note 33. Related party transactions between Group companies have been eliminated.

TRANSACTIONS AND BALANCES WITH RELATED PARTIES

2007	Purchases	Paid rents	Other expenses	Receivables	Payables
Associated company Lanimo Oü	0.1				
Entity with significant influence over the Group 1)		0.1	0.1	0.0	
2006					
Associated company Lanimo Oü	0.1				0.1

1) Lease agreement for the real estate for the consolidated operations in France and a service fee.

EMPLOYEE BENEFITS FOR TOP MANAGEMENT

EUR million	2007	2006
Salaries and other short-term employee benefits	-3.2	-1.5
Option programs to be settled in shares	-0.1	-0.2
Option programs to be settled in cash	-0.1	0.0
Total	-3.4	-1.8

Top management consists of members of the Board of Directors, CEO and other members of the Executive Committee. In 2007, two new members where appointed to the Executive Committee.

On December 31, 2007, members of the Board and the Executive Committee held directly a total of 902 181 Company shares and indirectly through a controlled corporation 1 180 000 shares. Top management owns approximately 5.3% of the issued share capital and voting rights of Rapala.

In 2006, 164 000 synthetic options (year 2006 program) and 22 500 share options (year 2004 program) where granted to top management (including the two new members of Executive Committee). In 2007, no options where granted to top management. On December 31, 2007, top management held 604 572 options of which exercisable 304 322 options (on December 31, 2006, 523 273 options of which exercisable 143 773 options). Taking into account the new composition of Executive Committee top management held on December 31, 2006 604 572 options of which exercisable 168 072 options. Option information for 2006 has been restated to represent the new composition of Executive Committee. The option scheme principles are the same for top management as for other employees. For more details on option programs, see note 29. Details of top management shareholdings and options are given on pages 77-78.

The Group has no business transactions or outstanding balances with top management or close members of their family.

EMPLOYEE BENEFITS FOR CHIEF EXECUTIVE OFFICER

EUR million	2007	2006
Salaries and other short-term employee benefits	-0.6	-0.3
Option programs to be settled in shares	0.0	-0.1
Option programs to be settled in cash	0.0	0.0
Total	-0.6	-0.4

The monthly salary of CEO is EUR 22 712. CEO is also entitled to a profit bonus according to the principles of the Group's senior management bonus scheme. In addition to the mandatory pension insurance, CEO has a right to receive further compensation of EUR 8 400 annually to be placed in a voluntary pension scheme or a similar arrangement. The retirement age and pension of CEO are determined in accordance with the legislation in force. The Company shall give notice at any time or using 24 months notice period and CEO shall give notice 3 or 6 months prior to terminating the service contract. The term of notice is dependent on the cause for termination of employment. If the service agreement is terminated by the Company without a cause, CEO is entitled to severance compensation corresponding to 24 months' salary (excluding profit bonuses).

EMPLOYEE BENEFITS FOR OTHER MEMBERS OF THE EXECUTIVE COMMITTEE

EUR million	2007	2006
Salaries and other short-term employee benefits	-2.4	-1.0
Option programs to be settled in shares	-0.1	-0.1
Option programs to be settled in cash	0.0	0.0
Total	-2.5	-1.1

In addition to the monthly salary, CEO and other members of the Executive Committee participate in the Group's senior management bonus scheme. The amount and payment of the bonus requires that the established EBITDA and cash flow targets are achieved. If the targets are not achieved, payment of bonus is fully at the discretion of the Board of Directors. Bonuses awarded under the scheme are paid in two installments, the first when the audited results for the relevant financial year are known and the second after a predetermined vesting period, to encourage retention of senior management.

EMPLOYEE BENEFITS FOR BOARD OF DIRECTORS

EUR million	2007	2006
Salaries and other short-term employee benefits	-0.2	-0.2
Option programs to be settled in shares	0.0	0.0
Total	-0.3	-0.2

Chairman of the Board is paid an annual remuneration of EUR 60 000 and other Members of the Board of Directors remuneration of EUR 30 000. The members of the Remuneration Committee do not receive further compensation. Members of the Board of Directors are paid a daily travel allowance corresponding to the maximum tax-exempt travel allowance and are reimbursed for accommodation and travel expenses. Members of the Board of Directors were paid a total of EUR 240 000 for their work on the Board of Directors and the Remuneration Committee in the financial year 2007 (2006: EUR 195 000).

29. SHARE-BASED PAYMENTS

The Group has applied the requirements of IFRS 2 (Share-based Payment) to all option programs granted after November 7, 2002 that were unvested as of January 1, 2005. The Group has three separate share-based payment programs: two share option programs (2003 and 2004 programs) and one synthetic option program settled in cash (2006 program). Share-based payments programs are valued at fair value on the grant date and recognized as an expense in the income statement during the vesting period with a corresponding adjustment to the equity or liability. The total estimated value of the option program is EUR 5.1 million.

On March 31, 2007, the exercise period for the 500 000 options issued under the 2003A share option program expired. All 500 000 shares have been subscribed with 2003A option rights. As a result of the share subscriptions with the 2003 and 2004 stock option programs, and if all stock options are fully exercised, the Group's share capital may still be increased by a maximum of 121 425 EUR and the number of shares by a maximum of 1 349 168 shares. The shares that can be subscribed with these stock options correspond to 3.4% of the Company's shares and voting rights.

GENERAL TERMS AND CONDITIONS OF THE OPTION PROGRAMS

	2003A (expired)	2003B	2004A I	2004A II
Nature of program	Granted share options	Granted share options	Granted share options	Granted share options
Personnel at the grant date	90	90	95	11
Number of options granted	500 000	500 000	453 750	46 250
Number of options outstanding	0	446 168	411 250	46 250
Exercise price, EUR 1)	4.68	6.02	5.96	5.96
Share price at the grant date, EUR	6.15	6.15	6.15	6.40
Term of contract	June 8, 2004-Mar. 31, 2007	June 8, 2004-Mar. 31, 2008	June 8, 2004-Mar. 31, 2009	Feb. 14, 2006-Mar. 31, 2009
Vesting period	June 8, 2004-Mar. 31, 2005	June 8, 2004-Mar. 31, 2006	June 8, 2004-Mar. 31, 2007	Feb. 14, 2006-Mar. 31, 2007
Conditions of the agreement	Employment during vesting period. As a general rule, in case of prior employment termination, options are forfeited.	Employment during vesting period. As a general rule, in case of prior employment termination, options are forfeited.	Employment during vesting period. As a general rule, in case of prior employment termination, options are forfeited.	Employment during vesting period. As a general rule, in case of prior employment termination, options are forfeited.
Execution	In shares	In shares	In shares	In shares

	2004B I	2004B II	2006A	2006B
Nature of program	Granted share options	Granted share options	Granted synthetic options	Granted synthetic options
Personnel at the grant date	95	11	113	116
Number of options granted	453 750	46 250	483 500	495 000
Number of options outstanding	399 250	46 250	479 000	490 500
Exercise price, EUR 1)	6.09	6.09	6.32	6.32
Share price at the grant date, EUR	6.15	6.40	5.93	5.93
Term of contract	June 8, 2004-Mar. 31, 2010	Feb. 14, 2006-Mar. 31, 2010	Dec. 14, 2006-Mar. 31,2011 2)	Dec. 14, 2006-Mar. 31,2012 2)
Vesting period	June 8, 2004-Mar. 31, 2008	Feb. 14, 2006-Mar. 31, 2008	Dec. 14, 2006-Mar. 31,2009	Dec. 14, 2006-Mar. 31,2010
Conditions of the agreement	Employment during vesting period. As a general rule, in case of prior employment termination, options are forfeited.	Employment during vesting period. As a general rule, in case of prior employment termination, options are forfeited.	Employment during vesting period. As a general rule, in case of prior employment termination, options are forfeited.	Employment during vesting period. As a general rule, in case of prior employment termination, options are forfeited.
Execution	In shares	In shares	In cash 2)	In cash 2)

1) The exercise price has been reduced by the amount of dividends distributed after the subscription period for option rights has ended and before the commencement of the subscription period for shares. For more details on dividends, see note 31.

2) The share-specific cash value will be determined in accordance with the end price on the test date (i.e. vesting date) or, as the case may be, on an additional test date. End price is the volume weighted average price of the share during the ten trading days before the test date. If at test date the difference between the exercise price and the end price (including the dividend adjustment) is positive, the reward will be paid. If the difference between the exercise price and end price on the test date (including the dividend adjustment) is negative, the end price will be determined again on an additional test date, which is the six, twelve, eighteen and twenty-four months' anniversary of the test date. If the difference between the exercise price and the end price is positive on any of the additional test dates, the reward will be paid and this incentive scheme shall automatically expire.

INPUT TO THE MODEL

2007

	2003A (expired)	2003B	2004A I	2004A II	2004B I	2004B II	2006A	2006B
Expected volatility, %	27	38	38	18	38	18	16	17
Expected life of option (years)	2.8	3.8	4.8	3.1	5.8	4.1	4.3	5.3
Risk-free interest rate, %	2.96	3.25	3.54	2.99	3.74	3.16	4.12	4.15
Estimated forfeit ratio at the grant date, %	0	5	7	0	10	5	5	7
Fair value of the option at the grant date, EUR	2.13	2.07	2.35	1.33	2.61	1.41	1.09	1.34
Option-pricing model	Black-Scholes	Black-Scholes	Black-Scholes	Black-Scholes	Black-Scholes	Black-Scholes	Black-Scholes	Black-Scholes

INPUT TO THE MODEL

2006

	2003A (expired)	2003B	2004A I	2004A II	2004B I	2004B II	2006A	2006B
Expected volatility, %	27	38	38	18	38	18	18	19
Expected life of option (years)	2.8	3.8	4.8	3.1	5.8	4.1	4.3	5.3
Risk-free interest rate, %	2.96	3.25	3.54	2.99	3.74	3.16	3.79	3.79
Estimated forfeit ratio at the grant date, %	0	5	7	0	10	5	5	7
Fair value of the option at the grant date, EUR	2.13	2.07	2.35	1.33	2.61	1.41	1.09	1.34
Option-pricing model	Black-Scholes	Black-Scholes	Black-Scholes	Black-Scholes	Black-Scholes	Black-Scholes	Black-Scholes	Black-Scholes

The expected volatility has been determined by using the historical volatility of the share price. Period very close to Initial Public Offering, in December 1998, has been excluded from the history, since it is not considered to be qualitative for volatility estimation purposes. The historical volatility is calculated based on the weighted average remaining life of the share options. The expected life of the option is based on historical data. The non-market criteria are not included in the fair value of the option but taken into account in the number of options that are assumed to vest.

Weighted average share price at the date of exercise for the options exercised in 2007 was EUR 5.83 (2006: EUR 6.50). The weighted average remaining contractual life for the share options outstanding as at December 31, 2007 is 2.30 years (2006: 3.29 years). The weighted average fair value for options granted during the year 2006 was EUR 1.23 (no options where granted in 2007). The range of exercise prices (reduced by the amount of dividends distributed) for options outstanding at the end of the year 2007 was EUR 5.96-6.32 (2006: EUR 4.68-6.44).

MOVEMENT IN NUMBER OF OPTIONS AND WEIGHTED AVERAGE EXERCISE PRICES OF OPTIONS DURING THE YEAR

	2007		2006	
	Pcs.	Weighted average exercise price EUR/share	Pcs.	Weighted average exercise price EUR/share
Outstanding Jan. 1	2 354 168	6.22	2 340 134	6.74
Granted during the year			1 083 000	6.41
Correction to options granted in 2006	-12 000	6.41		
Forfeited during the year	-21 000	6.19		
Exercised during the year	-2 500	4.68	-77 966	4.68
Expired during the year			-991 000	6.77
Outstanding Dec. 31	2 318 668	6.15	2 354 168	6.22
Exercisable at the end of the year	903 668	5.99	448 668	6.01

SHARE-BASED PAYMENT RECOGNITION IN THE INCOME STATEMENT

EUR million	2007	2006
Employee benefit expenses		
Option programs to be settled in shares	-0.4	-0.8
Option programs to be settled in cash	-0.3	0.0
Social security expenses liability from option programs	-0.1	-0.1
Deferred taxes	0.1	0.0
Total	-0.7	-0.9

SHARE-BASED PAYMENT RECOGNITION IN THE BALANCE SHEET

EUR million	2007	2006
Assets		
Deferred tax assets	0.1	0.0
Equity and liabilities		
Equity	-0.4	-0.1
Liabilities from option programs to be settled in cash	0.4	0.0
Social security expenses liability from option programs 4)	0.2	0.1

4) Included in current other non-interest-bearing payables.

When the stock options are exercised, the proceeds received, net of any transaction costs, are credited to share capital (nominal value) and share premium fund. In 2007 EUR 0.0 million was credited to share capital (2006: EUR 0.0 million) and EUR 0.0 to share premium fund (2006: EUR 0.4 million).

30. EARNINGS PER SHARE

	2007	2006
Net profit for the period attributable to the equity holders of the Company, EUR million	17.3	10.8
Weighted average number of shares, 1000 shares	38 781	38 565
Effect of dilution		44
Diluted weighted average number of shares, 1000 shares	38 781	38 609
Earnings per share, EUR	0.45	0.28
Diluted earnings per share, EUR	0.45	0.28
Weighted average number of shares, 1000 shares	38 781	38 565
Effect of 2003A share option, 1000 shares		1
Effect of 2003B share option, 1000 shares		17
Effect of 2004A share option, 1000 shares		23
Effect of 2004B share option, 1000 shares		4
Diluted weighted average number of shares, 1000 shares	38 781	38 609

Weighted average number of shares includes both old shares (RAP1V) and new restricted shares (RAP1VN0107). For more details on the calculations of earnings per share, see accounting principles for the consolidated accounts page 39.

31. DIVIDEND PER SHARE

The dividend paid for 2006 was EUR 0.12 per share. A dividend of EUR 0.18 per share is proposed for the Annual General Meeting of Shareholders to be held on April 3, 2008. This dividend payable is not reflected in the financial statements for 2007.

32. EVENTS AFTER THE BALANCE SHEET DATE

The Group has no knowledge of any significant events after the balance sheet date that would have a material impact on the financial statements for 2007. Material events after the balance sheet date have been discussed in the Review of the Board of Directors.

33. GROUP COMPANIES

Subsidiaries by geographical area		Country	Group holding %	Nature of activity
Europe				
Normark S.r.o.		Czech Republic	50	Distribution
Elbe Lystfiskeudstyr ApS		Denmark	100	Administration
Normark Denmark A/S	✪	Denmark	100	Distribution
Normark Sport Ltd.		England	100	Administration
Marttiini Oü		Estonia	100	Manufacturing
Normark Eesti Oü		Estonia	100	Distribution
Rapala Eesti AS	✪	Estonia	100	Manufacturing
KL-Teho Oy	✪	Finland	100	Manufacturing
Marttiini Oy	✪	Finland	100	Manufacturing
Normark Sport Finland Oy	✪	Finland	100	Distribution
Normark Suomi Oy		Finland	100	Distribution
Peltonen Ski Oy		Finland	80	Manufacturing
Rapala Shimano East Europe Oy	1)	Finland	50	Administration
Cannelle SA		France	100	Distribution
Nautisme SA		France	100	Distribution
Rapala France SAS	✪	France	100	Distribution
RNF Diffusion SARL		France	100	Distribution
Tortue SAS		France	100	Distribution
VMC Péche SA	✪	France	100	Manufacturing
Rapala Eurohold Ltd.	✪	Hungary	56.6	Distribution
Rapire Teo	✪	Ireland	100	Manufacturing
SIA Normark Latvia		Latvia	100	Distribution
Normark UAB		Lithuania	82	Distribution
Rapala B.V.	✪	Netherlands	100	Administration
Elbe Normark AS	✪	Norway	100	Distribution
Remen Slukfabrikk AS		Norway	100	Administration
Sandelin Berntsen Sport AS		Norway	51	Distribution
Vangen AS		Norway	100	Administration
Normark Polska Sp.z.o.o.	✪	Poland	100	Distribution
Normark Portugal SA		Portugal	100	Distribution
OOO Raptech	✪	Russia	100	Manufacturing
ZAO Normark		Russia	50	Distribution
Normark Spain SA	✪	Spain	100	Distribution
Normark Scandinavia AB	✪	Sweden	100	Distribution
Normark Trading AB		Sweden	100	Distribution
Rapala-Fishco AG	✪	Switzerland	100	Distribution
VMC Waterqueen Ukrainia		Ukraine	50	Distribution
North America				
Normark Inc.		Canada	100	Distribution
NC Holdings Inc.	✪	USA	100	Administration
Normark Corporation		USA	100	Distribution
Normark Innovations, Inc.		USA	100	Sourcing/design/manufacturing
VMC Inc.		USA	100	Distribution
Rest of the World				
Freetime Pty Ltd.	✪	Australia	100	Distribution
Rapala V.M.C. Do Brazil	✪	Brazil	100	Distribution
Rapala VCM China co.		China	100	Distribution
Willtech Industrial Ltd.	✪	Hong Kong	100	Administration and sourcing/design
Starcut Ltd		Hong Kong	100	Administration
Willtech (PRC) Ltd.		Hong Kong	100	Manufacturing
Rapala Japan K.K.	✪	Japan	100	Distribution
Rapala Asia Pacific Pte Ltd.	✪	Malaysia	100	Distribution
Rapala VMC South-Africa Distributors Pty Ltd.	✪	South Africa	70	Distribution
Rapala VMC Korea Co., Ltd	✪ 1)	South Korea	100	Distribution
Rapala VMC (Thailand) Co.,Ltd.	✪	Thailand	80	Distribution
Associated companies by geographical area				
Lanimo Oü		Estonia	33.3	Manufacturing

1) Established in 2007
✪ Shares owned by the parent company

KEY FINANCIAL FIGURES

		FAS 2003*	IFRS 2004	IFRS 2005	IFRS 2006	IFRS 2007
Scope of activity and profitability						
Net sales	EUR million	219.4	173.5	196.1	226.6	242.5
Operating profit before depreciation and impairments	EUR million	31.4	24.9	26.3	28.0	33.8
as a percentage of net sales	%	14.3	14.3	13.4	12.4	13.9
Operating profit	EUR million	19.0	19.9	21.5	21.7	28.3
as a percentage of net sales	%	8.6	11.4	11.0	9.6	11.7
Profit before extraordinary items and taxes	EUR million	17.4				
as a percentage of net sales	%	7.9				
Profit before taxes	EUR million	15.2	16.0	18.6	14.6	23.3
as a percentage of net sales	%	6.9	9.2	9.5	6.5	9.6
Net profit for the period 1)	EUR million	11.4	12.1	14.0	11.0	17.5
as a percentage of net sales	%	5.2	7.0	7.1	4.9	7.2
Attributable to						
Equity holders of the Company 1)	EUR million		12.0	14.0	10.8	17.3
Minority interest 1)	EUR million		0.1	0.0	0.2	0.3
Capital expenditure	EUR million	9.9	9.2	21.7	13.8	9.3
as a percentage of net sales	%	4.5	5.3	11.0	6.1	3.8
Research and development expenses	EUR million	2.2	0.6	0.7	1.2	1.6
as a percentage of net sales	%	1.0	0.3	0.4	0.5	0.7
Net interest-bearing debt at the end of the period	EUR million	84.8	81.7	95.9	99.3	80.2
Capital employed at the end of the period	EUR million	139.0	140.6	171.3	180.6	177.1
Return on capital employed (ROCE)	%	13.1	14.2	13.8	12.3	15.9
Return on equity (ROE)	%	26.8	21.7	20.8	14.1	19.7
Equity-to-assets ratio at the end of the period	%	31.7	31.4	33.1	33.4	38.2
Debt-to-equity ratio (gearing) at the end of the period	%	156.1	139.0	127.1	122.2	82.8
Average personnel for the period	Persons	3 095	3 067	3 780	3 987	4 577
Personnel at the end of the period	Persons	3 235	3 361	3 986	3 921	4 356

1) Minority interest has been deducted from 2003 net profit for the period.

* Financial year 17 months

		FAS 2003*	IFRS 2004	IFRS 2005	IFRS 2006	IFRS 2007
Share related key figures 2)						
Earnings per share	EUR	0.36	0.32	0.37	0.28	0.45
Fully diluted earnings per share	EUR	0.36	0.32	0.37	0.28	0.45
Equity per share	EUR	1.43	1.55	1.96	2.09	2.43
Dividend per share 3)	EUR	0.12	0.09	0.11	0.12	0.18
Dividend/earnings ratio	%	33.5	28.2	30.3	42.8	40.2
Effective dividend yield 3)	%	2.20	1.55	1.80	1.94	3.24
Price/earnings ratio						
Old shares 4)		15.1	18.2	16.5	22.1	12.5
New restricted shares 5)						13.1
Share price at the end of the period 3)	EUR	5.45	5.82	6.10	6.19	5.55
Lowest share price 3)	EUR	3.60	5.24	5.50	5.60	5.40
Highest share price 3)	EUR	5.75	6.85	6.88	6.75	6.27
Average share price 3)	EUR	4.36	5.87	5.91	6.26	5.82
Number of shares traded 3)	Shares	9 164 995	5 090 048	23 027 428	12 468 161	8 684 433
Number of shares traded of average number of shares 3)	%	24.41	13.56	60.81	32.33	22.51
Share capital	EUR million	3.4	3.4	3.5	3.5	3.6
Dividend for the period 3)	EUR million	4.5	3.4	4.2	4.6	6.9
Year end market capitalization						
Old shares 4)	EUR million	204.6	218.5	234.8	238.8	214.1
New restricted shares 5)	EUR million					5.2
Total	EUR million	204.6	218.5	234.8	238.8	219.3
Number of shares at the end of the period						
Old shares 4)	1000 shares	37 543	37 543	38 498	38 576	38 579
New restricted shares 5)	1000 shares					890
Total	1000 shares	37 543	37 543	38 498	38 576	39 468
Weighted average number of shares						
Old shares 4)	1000 shares	37 543	37 543	37 871	38 565	38 578
New restricted shares 5)	1000 shares					202
Total	1000 shares	37 543	37 543	37 871	38 565	38 781
Fully diluted number of shares at the end of the period	1000 shares	37 543	37 560	38 516	38 620	39 468
Fully diluted weighted average number of shares	1000 shares	37 543	37 560	37 889	38 609	38 781

2) Share related key figures include both old shares (RAP1V) and new restricted shares (RAP1VN0107), unless otherwise informed.

3) Only old shares (RAP1V), since new restricted shares (RAP1VN0107) do not carry dividend right for 2007 and have a lock-up period for 12 months.

4) Trading code for old shares is RAP1V.

5) Trading code for new restricted shares is RAP1VN0107. New restricted shares grant its holders the same rights as the old shares, except that these new shares will not give right to dividend paid from financial year 2007 and there is a lock-up period of 12 months. The new restricted shares shall be combined to the old shares as soon as the difference regarding the right to dividend between the series no longer exists i.e. October 24, 2008. The year end market capitalization and price/earnings ratio of the new restricted shares has been calculated using the average share price of old shares.

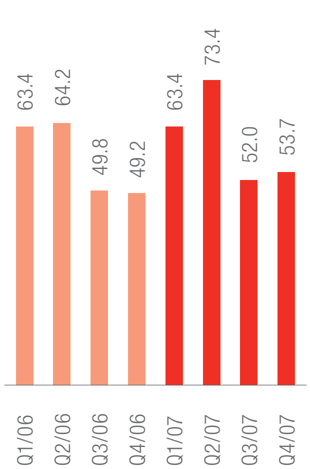
* Financial year 17 months

KEY FIGURES BY QUARTER

		Q1/06	Q2/06	Q3/06	Q4/06	Q1/07	Q2/07	Q3/07	Q4/07
Net sales	EUR million	63.4	64.2	49.8	49.2	63.4	73.4	52.0	53.7
Operating profit before depreciation and impairments	EUR million	11.6	9.7	4.4	2.4	12.3	12.6	4.6	4.3
as a percentage of net sales	%	18.2	15.1	8.8	4.8	19.5	17.2	8.8	7.9
Operating profit	EUR million	10.0	8.1	2.8	0.7	12.0	11.0	2.9	2.4
as a percentage of net sales	%	15.8	12.6	5.7	1.5	18.9	15.0	5.6	4.5
Profit before taxes	EUR million	7.8	6.1	1.0	-0.3	11.0	9.8	1.4	1.1
as a percentage of net sales	%	12.3	9.6	2.0	-0.6	17.3	13.4	2.7	2.1
Net profit for the period	EUR million	5.7	4.5	0.4	0.5	7.7	6.7	1.1	2.0
as a percentage of net sales	%	8.9	7.0	0.8	1.0	12.2	9.1	2.1	3.7
Attributable to: Equity holders of the Company	EUR million	5.7	4.3	0.3	0.4	7.6	6.6	1.0	2.0
Minority interest	EUR million	-0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Capital expenditure	EUR million	8.2	2.0	1.7	1.9	8.2	2.0	1.7	2.5
Net interest-bearing debt at the end of the period	EUR million	112.7	106.4	98.4	99.3	109.1	101.9	89.5	80.2
Capital employed at the end of the period	EUR million	195.2	189.0	181.2	180.6	197.5	192.7	180.7	177.1
Return on capital employed (ROCE)	%	21.9	18.0	6.4	1.7	25.4	23.6	6.4	5.4
Return on equity (ROE)	%	28.6	22.6	2.1	2.6	36.3	31.2	5.2	9.0
Equity-to-assets ratio at the end of the period	%	32.3	32.6	34.4	33.4	32.9	33.2	36.2	38.2
Debt-to-equity ratio (gearing) at the end of the period	%	136.6	128.7	118.9	122.2	123.5	112.3	98.1	82.8
Average personnel for the period	Persons	3 797	3 835	3 907	3 964	4 051	4 337	4 510	4 576
Personnel at the end of the period	Persons	3 766	4 076	4 090	3 921	4 717	4 622	4 957	4 356

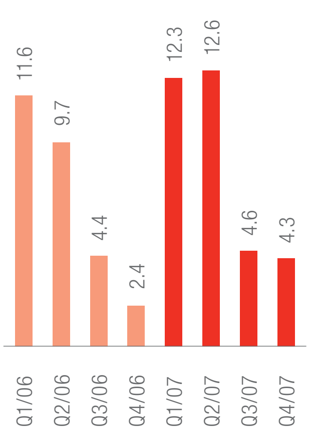
Net sales

EUR million



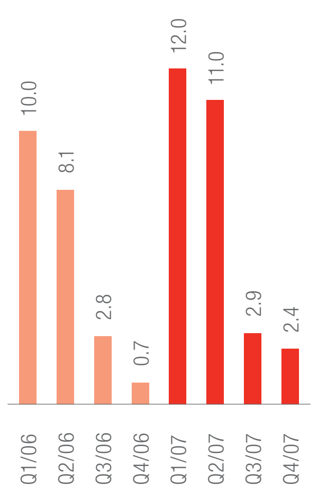
Operating profit before depreciation and impairments

EUR million



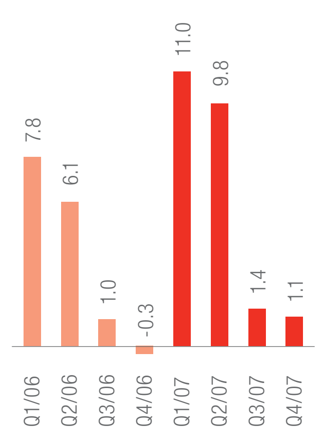
Operating profit

EUR million



Profit before taxes

EUR million



PARENT COMPANY FINANCIALS, FAS

PARENT COMPANY INCOME STATEMENT

EUR million	2007	2006
Net sales	27.3	27.4
Other operating income	0.1	0.1
Change in inventory of finished products and work in progress	1.0	-0.4
Production for own use	0.1	0.1
Materials and services	-13.5	-13.9
Employee benefit expenses	-9.1	-7.2
Other operating expenses	-4.1	-4.2
Operating profit before depreciation and impairments	1.7	2.0
Depreciation and impairments	-1.1	-1.0
Operating profit	0.7	1.0
Financial income and expenses	6.7	0.3
Profit before extraordinary items	7.4	1.3
Extraordinary items	1.2	1.5
Profit before appropriations and taxes	8.6	2.8
Appropriations	0.1	0.1
Income taxes	-2.2	-0.8
Net profit for the period	6.5	2.1

PARENT COMPANY BALANCE SHEET

Assets

EUR million	2007	2006
Non-current assets		
Intangible assets	1.4	1.7
Tangible assets	5.0	4.7
Investments	98.6	98.8
Interest-bearing receivables	25.7	44.0
Non interest-bearing receivables	1.0	
Total non-current assets	131.6	149.2
Current assets		
Inventories	5.4	4.1
Current financial assets		
Interest-bearing	19.8	6.2
Non-interest-bearing	13.6	20.6
Cash and cash equivalents	6.9	7.2
Total current assets	45.8	38.2
Total assets	177.4	187.4

Shareholders' Equity and Liabilities

EUR million	2007	2006
Shareholders' equity		
Share capital	3.6	3.5
Share premium fund	16.7	16.7
Fair value reserve	0.0	
Fund for invested non-restricted equity	4.9	
Retained earnings	47.7	50.2
Net income for the period	6.5	2.1
Total shareholders' equity	79.3	72.5
Appropriations	0.1	0.2
Non-current liabilities		
Interest-bearing	46.5	58.7
Non-interest-bearing		0.9
Total non-current liabilities	46.5	59.6
Current liabilities		
Interest-bearing	33.3	44.9
Non-interest-bearing	18.2	10.2
Total current liabilities	51.5	55.1
Total shareholder's equity and liabilities	177.4	187.4

EUR million	2007	2006
PARENT COMPANY CASH FLOW STATEMENT		
Net profit for the period	6.5	2.1
Adjustments		
Income taxes	2.2	0.8
Financial income and expenses	-6.7	-0.3
Reversal of non-cash items		
Depreciation and impairments	1.1	1.0
Other items	1.2	0.9
Interest paid	-4.9	-4.2
Interest received	3.4	2.7
Income taxes paid	-1.0	-1.8
Dividends received	7.4	3.9
Other financial items, net	-0.8	-1.2
Total adjustments	8.4	3.9
Change in working capital		
Change in receivables	9.8	-28.5
Change in inventories	-1.3	0.4
Change in liabilities	8.6	6.3
Total change in working capital	17.1	-21.8
Net cash generated from operating activities	25.5	-17.9
Net cash used in investing activities		
Purchases of intangible assets	-0.1	
Proceeds from disposal of tangible assets	0.4	
Purchases of tangible assets	-1.3	-1.2
Purchases of available-for-sale investments		
Acquisition of subsidiaries	-1.2	-1.7
Total net cash used in investing activities	-2.2	-2.9
Net cash generated from financing activities		
Dividends paid	-4.7	-4.2
Loan withdrawals		101.8
Loan repayments	-23.9	-74.6
Proceeds from issue of shares	5.0	0.4
Total net cash generated from financing activities	-23.6	23.4
Change in cash and cash equivalents	-0.3	2.6
Cash and cash equivalents at the beginning of the period	7.2	4.6
Cash and cash equivalents at the end of the period	6.9	7.2

EUR million	2007	2006
PARENT COMPANY STATEMENT OF CHANGES IN EQUITY		
Share capital Jan. 1	3.5	3.5
Private offering	0.1	
Shares subscribed with options	0.0	0.0
Share capital Dec. 31	3.6	3.5
Share premium fund Jan. 1	16.7	16.3
Private offering		
Shares subscribed with options	0.0	0.4
Share premium fund Dec. 31	16.7	16.7
Fair value reserve Jan. 1		
Gains and losses on cash flow hedges	0.0	
Fair value reserve Dec. 31	0.0	
Fund for invested non- restricted equity Jan. 1		
Private offering	4.9	
Fund for invested non-restricted equity Dec. 31	4.9	
Retained earnings Jan. 1	52.3	54.4
Dividends paid	-4.6	-4.2
Net income for the period	6.5	2.1
Retained earnings Dec. 31	54.2	52.3

DISTRIBUTABLE EQUITY

	2007	2006
Other distributable funds		
Retained earnings	52.3	54.4
Dividends paid	-4.6	-4.2
Net income for the period	6.5	2.1
Distributable earnings	54.2	52.3
Other distributable equity		
Fund for invested non- restricted equity	4.9	
Total distributable equity	59.1	52.3

PARENT COMPANY SHARE CAPITAL

	Shares 2007	EUR 2007	Shares 2006	EUR 2006
Old shares	38 578 769	3 472 089	38 576 269	3 471 864
New restricted shares	889 680	80 071		
Total	39 468 449	3 552 160	38 576 269	3 471 864

Each share from both classes is entitled to one vote. New restricted shares (RAP1VN0107) grant its holders the same rights as the old shares (RAP1V), except that these new shares will not give right to dividend paid from financial year 2007 and there is a lock-up period of 12 months. The new series of shares shall be combined to the old series of shares as soon as the difference regarding the right to dividend between the series no longer exists i.e. October 24, 2008.

The financial statements of parent company have been prepared according to Finnish Accounting Standards (FAS). Parent company's complete financial statements is available at the Group's website www.rapala.com.

Corporate Governance and Management

Rapala complies with the Corporate Governance recommendation for listed companies issued by the Helsinki Stock Exchange, the Finnish Central Chamber of Commerce and the Confederation of Finnish Industry and Employers. The full version of the Company's Corporate Governance statement is available at the website *www.rapala.com*.

General Meeting

The General Meeting is the highest decision-making body of a limited company where the shareholders participate in the supervision and management of the Company.

The Annual General Meeting (AGM) decides on the matters stipulated in the Companies Act such as the acceptance of the financial statements, increasing or decreasing share capital, amendments to the Articles of Association and proposed dividend, the release from liability of members of the Board of Directors (Board) and the President and CEO, the election of the members of the Board and the Auditors, and the compensation paid to them.

The Duties and Responsibilities of the Board

The Board's duties and responsibilities are principally based on the Finnish Companies Act and the Company's Articles of Association. All matters of key importance to the Group are decided by the Board. These include appointment and removal of the President and CEO, approval and confirmation of strategic guidelines, approval of quarterly and annual financial reports, business plans, annual budgets, and stock exchange releases as well as deciding on major investments and disposals.

Election and Terms of Board Members

The Articles of Association provide that the Board consists of no less than five and no more than ten members. The current Board comprises seven members: the Group's President and CEO, the Head of Rapala's Chinese Manufacturing Operations and Hong Kong Office and five non-executive expert members not employed by the Group.

Board members are elected by the AGM. The term of a Board member is until the date of the next AGM. The Board elects a Chairman to serve until the date of the next AGM. During the financial year, the Board met 14 times. The average attendance rate at these meetings was 94.9%. For compensation of Board members, see note 28 in the consolidated financial statements .

Remuneration Committee

The Board has appointed a Remuneration Committee that is chaired by Mr. Emmanuel Viellard. Its members are drawn from the Company's non-executive directors and currently consist of Mr. Eero Makkonen and Mr. Jan-Henrik Schauman.

Committee members' appointments run concurrently with a director's term as a member of the Board. The Committee's tasks include approval of the remuneration and employment policies applied to the Company's senior management, including terms of employment contracts, remuneration and benefit levels and bonus arrangements. The Committee is charged with ensuring that the remuneration scheme is consistent with the Company's goals.

President and Executive Committee

The President is appointed by the Board. Since 1998, Mr. Jorma Kasslin has acted as the President and Chief Executive Officer and as a member of the Board. The Executive Committee assists the President in managing and planning the operations of the Group. The members of the Executive Committee report to the President. For compensation of President and Executive Committee, see note 28 in the consolidated financial statements.

Business Organization and Responsibilities

The Group comprises the parent company and manufacturing and distribution subsidiaries. Responsibility for the management and direction of these subsidiaries rests with each company's Board, which typically comprises the Group President, Group Chief Financial Officer, Company Counsel and the subsidiary's President. In addition, each Group company has its own management team. The Group's business organization can be divided into manufacturing and distribution and, on the other hand, into five different businesses, which are: Group branded lures, fishing hooks, fishing accessories, third party fishing products and other products.

Insider Register

The Group's guidelines on insider shareholdings follow to a great extent the principles of the current regulations on insider shareholdings prepared by the Helsinki Stock Exchange. Information on persons included in the public insider register can be found on the Company's website.

Audit

Ernst & Young is responsible for the audit of the majority of Group companies globally. The auditors of the Parent Company, Ernst & Young Oy, are responsible for instructing and coordinating the audit in all Group companies. The auditor in charge is Juha Nenonen, CPA. The fact that the Group has no separate internal audit function of its own is reflected in the scope and content of the audit.

BOARD OF DIRECTORS

Emmanuel Viellard
Chairman
B.A., CPA
Year of birth: 1963
Vice Chairman and Executive Vice President of Lisi Industries
Shareholding*: -
Indirect shareholding through controlled corporation*: 100 000
Options*: 30 000

Jorma Kasslin
President and Chief Executive Officer
M.Sc. (Eng.)
Year of birth: 1953
Shareholding*: -
Indirect shareholding through controlled corporation*: 680 000
Options*: 118 334

Eero Makkonen
B.Sc. (Eng.)
Year of birth: 1946
Shareholding*: -
Indirect shareholding through controlled corporation*: 100 000
Options*: 30 000

Jan-Henrik Schauman
M.Sc. (Econ.), MBA
Year of birth: 1945
Shareholding*: -
Options*: 30 000

Christophe Viellard
Diploma ESCP
Year of birth: 1942
Shareholding*: -
Indirect shareholding through controlled corporation*: 100 000
Options*: 30 000

King Ming (William) Ng
Head of Rapala's Chinese Manufacturing Operations and Hong Kong Office
B.Sc. (Eng.)
Year of birth: 1962
Shareholding*: 890 580
Options*: 49 533

Marc Speeckaert
MBA
Year of birth: 1951
General Manager of Sofina
Shareholding and options*: -

*Shareholdings and options on December 31, 2007. Options also include synthetic options.

EXECUTIVE COMMITTEE

Jorma Kasslin
President and Chief Executive Officer (CEO)
See information above (Board of Directors)

Jouni Grönroos
Chief Financial Officer (CFO)
Shareholding*: 8 001
Indirect shareholding through controlled corporation*: 30 000
Options*: 44 500

King Ming (William) Ng
Head of Chinese Manufacturing Operations and Hong Kong Office
See information above (Board of Directors)

Olli Aho
Company Counsel, Secretary of the Board and Investor Relations
Shareholding*: -
Indirect shareholding through controlled corporation*: 70 000
Options*: 58 806

Juhani Pehkonen
Head of Lure Business
Shareholding*: -
Indirect shareholding through controlled corporation*: 30 000
Options*: 58 800

Stanislas de Castelnau
Head of Fishing Hook Business
Shareholding*: -
Indirect shareholding through controlled corporation*: 10 000
Options*: 51 300

Hannu Murtonen
Head of Distribution in East and North Europe
Shareholding*: 600
Indirect shareholding through controlled corporation*: 50 000
Options*: 46 766

Tom Mackin
President of Rapala USA
Shareholding*: 3 000
Indirect shareholding through controlled corporation*: 10 000
Options*: 56 533

OTHER GROUP KEY MANAGERS

LURES
Aku Valta, Sales and Marketing
Jari Kokkonen, Research & Development – Storm and Blue Fox
Jukka Sairanen, Research & Development – Rapala
Arto Nygren, Vääksy Factory
Rauno Rantanen, Pärnu Factory
Martyn Lydon, Inverin Factory
Jevgeni Maksutenko, Sortavala Factory
LF Yung, Willtech Factory
DQ Yung, Willtech Factory
Kevin Au, Willtech Lures

FISHING HOOKS
Christian Victor, Sales and Marketing

FISHING ACCESSORIES
Lars Ollberg, Sales and Marketing
Päivi Ohvo, Marttiini
Brian Wong, Willtech Fishing Accessories
Peter Nordlander, Sourcing

OTHER PRODUCTS
Juhani Eskelinen, Peltonen
Cynthia Foong, Willtech Gift Products
Tapio Nirkkonen, KL-Teho

ADMINISTRATION
Mikko Häikiö, Financial Planning and Business Control
Esko Jäntti, Group Treasury
Anu Natunen, Group Reporting and Financial Control
Jussi Ristimäki, Group Tax and Risk Management

DISTRIBUTION
Gregg Wollner, USA
Nancy Adelmann, USA
Roger Cannon, Canada
Philippe Guigo, France
Jean-Philippe Nicolle, France
Janne Paukkunen, Spain, Portugal and Brazil
Saku Kulmala, Finland
Mats Baum, Sweden
Nils Larsen, Denmark
Hasse Coucheron-Aamot, Norway
Thomas Brumann, Switzerland
Victor Skvortsov, Russia
Mirek Adamski, Poland
Roman Sereda, Ukraine
Janis Adamovics, Latvia
Vitas Miskinis, Lithuania
Daniel Sirucka, Czech Republic
Mati Banhard, Estonia
Karoly Agh jr., Hungary
Manabu Kimoto, Japan
Leong Loke, Malaysia and Thailand
Peter Nordlander, China and South Korea
Lion Huang, China
Jay Choi, South Korea
Brian Hale, Australia
Grant Pledger, South Africa
Mark Pledger, South Africa

*Shareholdings and options on December 31, 2007. Options also include synthetic options.

Shares and Shareholders

Rapala's shares have been traded on the OMX Nordic Exchange in Helsinki since 1998.

In 2007, the shares traded between EUR 5.40 and 6.27 with an average price of EUR 5.82.

Shares and Voting Rights

On December 31, 2007, the share capital fully paid and reported in the Trade Register was EUR 3.6 million and the total number of shares was 39 468 449 (2006: 38 576 269), which is divided to two series: 38 578 769 old shares (trading code RAP1V) and 889 680 new restricted shares (RAP1VN0107). The book value of a share is EUR 0.09. Each share from both series is entitled to one vote. For details on the restrictions on the new shares, see chapter Changes in Share Capital.

Board's Authorizations

Based on authorization given by the Annual General Meeting (AGM) in April 2007, the Board can decide to issue shares through issuance of shares, options or special rights entitling to shares in one or more issues. The number of new shares to be issued including the shares to be obtained under options or special rights shall be no more than 10 000 000 shares. This authorization includes the right for the Board to resolve on all terms and conditions of the issuance of new shares, options and special rights entitling to shares, including issuance in deviation from the shareholders' preemptive rights. This authorization is in force for a period of 5 years from the resolution by the AGM. The Board is also authorized to resolve to repurchase a maximum of 2 000 000 shares. This amount of shares corresponds to less than 10% of all shares of the company. The shares may be repurchased either through a tender offer made to all shareholders on equal terms, or through public trading from the market. This authorization is in force until September 30, 2008.

Changes in Share Capital

In March 2007, 2 500 new shares where subscribed with 2003A option rights. The share capital increased with EUR 225.00 and the subscriptions were registered in the Trade Register on April 4, 2007 and listed on the main list of the OMX Nordic Exchange Helsinki on April 5, 2007. All 500 000 shares have now been subscribed with 2003A option rights.

In October 2007, 889 680 new shares were issued to Shimano for the subscription price of EUR 5.62 per share, which represented a three-month weighted average share price for the share from June 27 to September 27. The share capital increase of EUR 80 071.20 corresponding to the subscription was registered in the Trade Register on October 24, 2007. The new shares where listed as a new series of shares on the main list of the OMX Nordic Exchange Helsinki on October 25, 2007. These new shares will not give right to dividend paid from the financial year 2007 and they have a lock-up period of 12 months. The new restricted series of shares shall be combined to the old series of shares as soon as the difference regarding the right to dividend between the series no longer exists i.e. October 24, 2008. As a result of the share capital increase, Rapala's share capital was EUR 3 552 160.41 and the total number of outstanding shares 39 468 449 at December 31, 2007.

Shareholder Register

The shares of the Company belong to the Book Entry Securities System. Shareholders should notify the particular register holding their Book Entry Account about changes in address or account numbers for payment of dividends and other matters related to ownership of shares.

Shareholder Agreement

Viellard Migeon & Cie (VM&C) and Utavia S.à.r.l (Utavia) entered into a shareholders' agreement on June 29, 2006 with respect to their shares in Rapala, and the shareholders of Utavia have agreed to be bound by the said shareholders' agreement. The main shareholder of Utavia is the CEO of Rapala, Jorma Kasslin, with ca. 43% shareholding. The other shareholders are Board members or managers of the Group. In total, Utavia has some 40 shareholders. On June 29, 2006 Utavia purchased from De Pruines Industries (DPI) 1 610 000 shares representing ca. 4.08% of the issued share capital and voting rights in Rapala. DPI is a subsidiary of VM&C.

In the shareholders' agreement, Utavia has undertaken to vote in Rapala's

PRINCIPAL SHAREHOLDERS ON DECEMBER 31, 2007 *

Shareholder	Number of shares	%
Viellard Migeon & Cie	10 414 071	26.4
Sofina NV	7 500 000	19.0
Odin Finland	1 766 079	4.5
Odin Norden c/o Odin Forvaltnings AS	1 617 122	4.1
The State Pension Fund	1 000 000	2.5
So Wai Hang	890 580	2.3
Shimano Singapore Private Limited	889 680	2.3
Eläke-Fennia pension insurance company	625 000	1.6
OP-Finland Small Firm fund	612 000	1.6
Veritas pension insurace company	534 000	1.4
Administrative registrations	8 311 610	21.1
Other shareholder's total	5 308 307	13.4
Total number of shares	39 468 449	100

SHAREHOLDERS BY CATEGORY ON DECEMBER 31, 2007 *

Shareholder category	Number of shares	%
Private and public corporations	836 189	2.1
Financial and insurance companies	2 457 010	6.2
Public institutions	3 202 407	8.1
Non-profit organizations	217 683	0.6
Individuals	1 093 029	2.8
International shareholders	31 662 131	80.2
Total	39 468 449	100

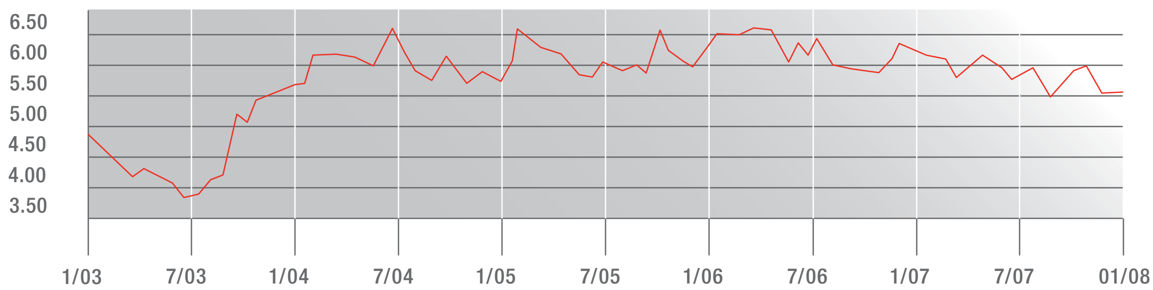
DISTRIBUTION OF SHAREHOLDING ON DECEMBER 31, 2007 *

Number of shares	Number of shareholders	%	Total shares	%
1 - 100	455	30.5	36 532	0.1
101 -500	578	38.7	172 155	0.4
501 - 1 000	197	13.2	169 584	0.4
1 001 - 10 000	206	13.8	636 464	1.6
10 001 - 1 000 000	48	3.2	8 897 048	22.5
1 000 001 -	8	0.5	29 556 666	74.9
Total	1 492	100	39 468 449	100

* Number of shares includes both old shares (RAP1V) and new restricted shares (RAP1VN0107). The new restricted class of shares shall be combined to the old class of shares as soon as the difference regarding the right to dividend between the classes no longer exists i.e. on October 24, 2008. Shimano Singapore Private Limited holds all restricted shares (889 680 shares). Shimano represents International shareholders category.

general meetings of shareholders in favor of the resolutions approved and/or submitted by VM&C and authorized VM&C to exercise the voting rights attached to the Rapala shares held by it. Utavia has undertaken not to sell more than 50% of the shares it owns in Rapala during the period of first two years after the execution of the shareholders' agreement. VM&C has a right of first refusal to any shares sold by Utavia. The parties to the shareholders' agreement undertake to use and exercise the votes that they control at the general meetings of shareholders of Rapala so that two persons designated by VM&C and one person designated by Utavia (the first person appointed being Jorma Kasslin in this respect) are appointed as members of the Board. The parties to the shareholders' agreement have agreed to support Jorma Kasslin as the CEO of Rapala for a period of three years from the execution of the shareholders' agree-

SHARE PRICE DEVELOPMENT IN 2003-2007, EUR



ment and election of Emmanuel Viellard as the chairman of the Board during the same period.

Option Programs

The Group has three separate share-based payment programs: two share option programs settled with new shares (2003 and 2004 programs) and one synthetic option program settled in cash (2006 program). The following option schemes are currently in place mainly for senior and middle management and for the Board, excluding 2006 program, which is not for non-executive Board members:

- The 2003B Share Option Program: A maximum of 500 000 options were issued to 90 managers, exercisable between March 31, 2006 and March 31, 2008 at an exercise price of EUR 6.23 per share. Exercise price represents the weighted average share price in March 2004.

- The 2004 Share Option Program: A maximum of 1 000 000 options were issued to 106 managers, 500 000 exercisable between March 31, 2007 and March 31, 2009 at an exercise price of EUR 6.16 per share (2004A), and 500 000 exercisable between March 31, 2008 and March 31, 2010 at an exercise price of EUR 6.41 per share (2004B). Exercise price represents the weighted average share price in March 2005 (2004A) and March 2006 (2004B).

- The 2006 Synthetic Option Program (share-based incentive plan): A maximum of 1 000 000 options were issued to 116 managers, 500 000 exercisable between March 31, 2009 and March 31, 2011 at an exercise price of EUR 6.44 per share (2006A), and 500 000 exercisable between March 31, 2010 and March 31, 2012 at an exercise price of EUR 6.44 per share (2006B). The share-specific cash value will be determined in accordance with the end price on the test date (i.e. vesting date) or, as the case may be, on an additional test date. End price is the volume weighted average price of the share during the ten trading days before the test date. If at test date the difference between the exercise price and the end price (including the dividend adjustment) is positive, the reward will be paid. If the difference between the exercise price and end price on the test date (including the dividend adjustment) is negative, the end price will be determined again on an additional test date, which is the six, twelve, eighteen and twenty-four months' anniversary of the test date. If the difference between the exercise price and the end price is positive on any of the additional test dates, the reward will be paid and this incentive scheme shall automatically expiry.

The exercise price shall be reduced by the amount of dividends distributed after the subscription period for option rights has ended and before the commencement of the share subscription period.

The outstanding options under 2003 and 2004 share option programs represented a 3.4% interest in the Company's outstanding shares on December 31, 2007. For more details on share-based payments see note 29 in the consolidated financial statements.

Management Shareholding

On December 31, 2007, members of the Board and the Group Executive Committee held directly a total of 902 181 Company shares and indirectly through a controlled corporation 1 180 000 Company shares, corresponding to 5.3% of all shares and voting rights. If the share option programs 2003 and 2004 were exercised in their entirety, shareholdings and aggregate voting rights held by the members of the Board and Group Executive Committee would increase by 1.1%. Details of management shareholdings are given on pages 77-78.

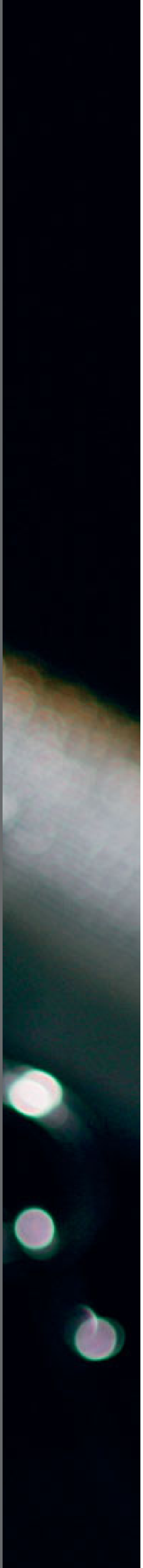
Trading and Performance of the Company's Shares

The Company share (RAP1V) is quoted on the OMX Nordic Exchange in Helsinki. The 2007 closing price on December 31 was EUR 5.55. The highest price in 2007 was EUR 6.27, the lowest price EUR 5.40 and the average price EUR 5.82. The share price decreased 10.3% in 2007. The OMX Nordic Mid Cap price index decreased 8.9% in 2007. A total of 8 684 433 Rapala shares were traded in 2007. This represents 22.5% of all RAP1V shares on December 31, 2007. Due to the trading restrictions, the new shares (RAP1VN0107) had no trading and price quotation in 2007.

At the end of the year, the market capitalization of all outstanding shares was EUR 219.3 million. Earnings per share (basic) were EUR 0.45 (EUR 0.28 in 2006). For more share related key figures see page 72.

Dividend

The Board proposes to the AGM that a dividend of EUR 0.18 per share will be paid.



Risk Management

The objective of Rapala's risk management is to support the implementation of the Group's strategy and execution of business targets. This is done by monitoring and mitigating the related threats and risks and simultaneously identifying and managing opportunities.

Rapala's Approach to Risk Management

The Board evaluates the Group's financial, operational and strategic risk position on a regular basis and establishes related policies and instructions to be implemented and coordinated by Group management. The daily risk management activity is primarily allocated to the management of the business units.

The importance of risk management has increased when the Group has continued to expand its operations fast. Accordingly, Group management has allocated more resources to risk management and developed risk management practices during 2007. In 2007, focus of Group level risk management actions was on foreign exchange, credit, liquidity, compliance and hazard risks and Group wide insurances.

The following is a summary of key strategic, operational and financial risks and what the Group has done to mitigate these risks.

Strategic Risks

Sport fishing is one form of leisure hobby and in this respect the Group's products are competing against wide range of other hobbies. The Group is promoting the attractiveness of sport fishing through active sales and marketing as well as brand management. The Group is constantly developing new products to meet consumer's needs and creating new needs for the consumers.

One of the Group's most valuable assets is the brand portfolio. The Group is actively managing the brands and their identity and securing that the value of the brands is not jeopardized or violated by any means. The Group's brands are also legally protected.

Consumers relate the Group's brands to high quality, unique fishing experience, special functional features and trustworthy distribution channel. Consumers are able to differentiate illegal copy products and thus this does not constitute a strategic threat for the Group. The Group protects vigorously its intellectual property rights and takes legal actions against illegal copiers.

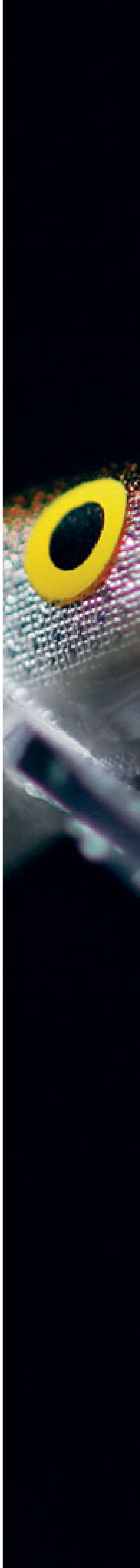
Sport fishing is dependent on availability of fresh fishing waters for fishes to live and breed. Increased pollution of the environment is a growing concern for the Group. Rapala is actively promoting initiatives to enhance environmental protection and increasing preparedness to comply with continuously tightening environmental regulations by taking steps to reduce the environmental impacts of its operations. The Group is also acting in the forefront to develop products, e.g. catch-and-release equipment, to comply with the fish protection initiatives. For more details on the environmental actions, see the section Environmental Affairs.

The Group faces competition in all the markets where its products are sold. Due to uniquely wide distribution network, the Group's geographical market risk is truly globally spread, evening out seasonal and local market fluctuations.

Rapala has limited amount of global competitors. In 2007, the global competitor landscape developed when Jarden acquired both Pure Fishing and K2 (including Shakespeare) creating a major fishing tackle company. This acquisition did not have a material impact on the Group's operations or competitive position mainly because of differences in product offering. Rapala's competitors are in many cases local fishing tackle producers operating with limited geographical scope and limited range of products. In some countries, competition is created by fishing tackle retailers selling their private label products. The strength of the Group's product development and brand-portfolio is essential in succeeding in this competition.

The Group's production is spread out in several countries. Some of these countries include higher political risk but simultaneously provide access to competitive labor cost. Rapala monitors the country risks and labor costs and seeks ways to manage production and distribution costs.

Manufacturing of sport fishing products is not dependent of any proprietary manufacturing technologies or patents. The Group's manufacturing units are actively monitoring the development of generic manufacturing technologies and considering the applications to production of its products.



Distribution of third party fishing and outdoor products creates a material part of the Group's sales. Due to geographical spread and multitude of the existing and potential suppliers, the Group is not critically dependent on any single product or raw material supplier. Rapala's strategic distribution partnership with Shimano was further deepened and strengthened during 2007.

Rapala's customer base is extensively diversified geographically and quantitatively. Customers are mostly country-specific and not operating globally. The Group is not critically dependent on any single customer: even the biggest single customer represents clearly less than 10% of the Group's net sales. Rapala is not largely engaged in direct consumer retailing. This is not considered to be a risk as consumer demand is largely driven by brand-consciousness.

Rapala is expanding considerably through organic growth as well as mergers and acquisitions. Careful target selection, proper due diligence process and post-merger integration are key issues in securing that the expansion initiatives are successful and in line with the Group's strategic goals.

Board evaluates the Group's strategic risks annually as part of the strategy process and Group management continuously monitors changes in the business environment. Strategic risk management in local jurisdictions is allocated to the management of each business unit.

Operational and Hazard Risks

The underlying consumer demand for the Group's products is seasonal and also impacted by unforeseeable factors such as weather. To offset the seasonality, the Group is engaged in production and distribution of winter fishing and sports equipment. The Group has also expanded its own distribution network to the southern hemisphere to mitigate the effects of seasonality.

Due to seasonality in demand, the Group's product shipments concentrate annually to relatively short time periods. Supply problems during these periods could lead to loosing proportion of the sales for the entire season.

There is a high level of dependency between the Group's manufacturing and distribution units and interruption at earlier stage of the supply chain can have knock-on effects throughout the rest of the organization. This risk is managed with high level of cooperation between the manufacturing and distribution units, safety stocks and proper insurances.

The Group's sales prices are primarily fixed annually or bi-annually, normally before each season. The Group's purchases include raw materials for which the purchase price may fluctuate during the season. The Group aims to manage the raw material price risk by entering into purchase agreements, which enable the Group to take raw material price properly into account in price setting. The Group also aims to push any raw material price increases to the sales prices immediately or during a period of time.

In respect of manufacturing activities, the Group is not critically dependent on any single external raw material or other production factor supplier. Availability of competent production labor is essential and the Group aims to maintain good employer reputation and personnel relations to achieve this.

There are significant dependencies between the Group's manufacturing units, which could cause supply problems e.g. in case of fire or other hazard. Such hazard could lead to property damages but also to business interruption losses throughout the supply chain. Therefore, Rapala has increased the emphasis of hazard risk management. Group-coordinated global insurance policies for property damage and business interruption as well as for transportation were put in place in 2007, covering most of the Group companies. These new insurance policies e.g. take properly into account the high level of the Group's interdependency. A global insurance policy for general and product liabilities was also issued in 2007.

Rapala has assigned an insurance broker to assist in the management of these global insurance policies. The Group has also started a program with the property damage insurer to carry out hazard prevention reviews in the Group's key manufacturing and distribution operations.

Board evaluates the Group's operational risks at least once a year as part of the operational plans and budgets. Group management monitors and coordinates the continuous management of operational risks, which is the responsibility of the management of each business unit.

Financial Risks

The Group's financial risks consist of market risks, credit and default risks and liquidity risks. Board evaluates financial risks several times during the year and Group management monitors and manages them continuously. In 2007, the Group established a process for internal currency hedging while the external hedges are managed by Group Finance. Equity hedging was also introduced for some key currencies in 2007.

Financial risks are discussed in detail, as required by IFRS 7, in note 22 to the consolidated financial statements.

Environmental Affairs

The mission of Rapala is to provide a positive and strong human experience in the nature and especially in sport fishing and, therefore, the Group lives from and promotes a clean and healthy environment.

Rapala's Approach to Environmental Affairs

Healthy and clean environment is important for Rapala for the reason that its sport fishing, hunting and outdoor businesses originate from, and are based on, human experience in the nature. Industrial and business activities inevitably create various impacts on the environment that the Group is trying to manage in a way that also future generations would be able to go and experience the nature using Rapala's products. In addition, the Group promotes environmental issues beyond its own operations.

The use of raw materials, airborne emissions and waste are the most significant environmental impacts of the Group. Safety risks are caused by handling of flammable and toxic raw materials during the production process. The Group aims to develop its products, manufacturing processes and operating methods so that their environmental impact throughout the product's lifecycle will remain as small as possible.

Close to one third of Rapala's sales come from outsourced products. The most significant environmental impacts of these products, while in Group ownership, are related to transportation and storage of goods.

Rapala and its Group companies operate in line with the local environmental laws and regulations. Ways of conducting business, including internal and external business processes, are continuously developed keeping in mind the environmental aspects and the principles of sustainable development.

Several Group companies are members of local and national environmental organizations. They take part in the funding of these organizations, providing education on clean and healthy waters and other environmental issues and participating in clean-up actions.

The following is a summary of practical actions the Group has taken to minimize the negative impacts of its business to environment and actions to improve environmental affairs in areas where it operates.

Production Processes

Close to 50% of the products sold by Rapala are produced in the Group's own manufacturing facilities. In order to minimize the waste in painting, the lures are electronically engaged for better adherence of the paint. With this advanced painting technique, also usage and waste of lacquer is minimized. Production waste is separated into energy, plastics, bio materials, metals, carton, paper waste and hazardous materials to promote and increase recycling. In addition, some of the Group's factories have replaced oil as an energy source with gas, which is more environmental friendly.

Raw Materials

Hard-body lures manufactured by the Group are made of balsa, apache wood and plastics. An important part of the wood is sourced from the registered farms that respect the sustainable development rules in farming and forestry. The Group's research and development department continuously seeks for possibilities to replace currently used raw materials with more environmentally friendly substitutes that do not decrease the desired features of the materials. The Group is also working in cooperation with external suppliers in order to find more environmental friendly raw materials.

Products

Most of the Group products are longlasting, kept and used by consumers for years and even decades.

All of the wooden parts of the Group products are biodegradable and most of the metal used in the Group products can be recycled. The biggest environmental challenge has been in the plastic products but the Group is currently in the process of developing biodegradable plastic products. Even if some of the products may end up in the water or nature during e.g. the sport fishing activities, the important challenge is to get the consumers to make their unused or damaged products available for recycling.

Transportation and Storage of Goods

To reduce the environmental impacts of transportation, the Group aims to maximize sea transportation and minimize air transportation between the continents when shipping its products from the factories to distribution units. The Group also aims to consolidate the shipments so that small quantities will not be shipped separately. The storage of goods does not have much impact on environment other than use of electricity for warming and lightning of the premises. The Group also optimizes its production to minimize the shipping volumes between factories and distribution companies and manages inventories to minimize the volume of goods stored.

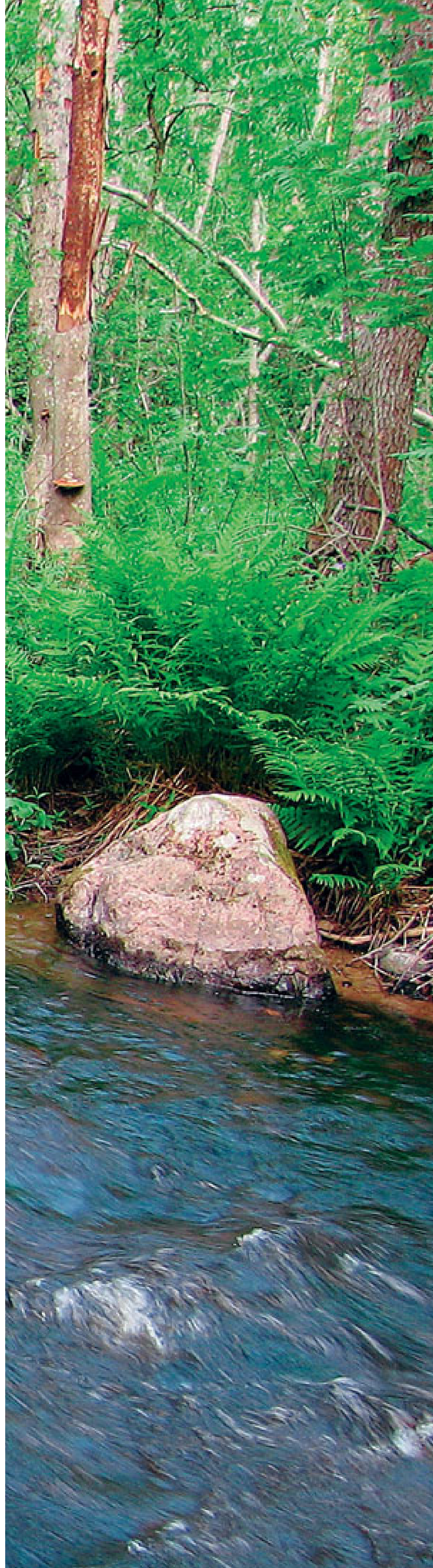
Special Issues and Actions in 2007

On the Group level, Rapala has increased the reporting and follow-up of environmental affairs in 2007. More work is still needed to implement new environmental performance indicators and to standardize and increase related measurement.

Environmental R&D work especially on biodegradable plastics proceeded in 2007 and first products with this new material will be introduced in 2008.

In Spain, some 1 000 persons participated in 15 actions to clean lakes and lake shores during 2007. These actions were financed and organized by Rapala Foundation, a Spanish environmental foundation founded by Rapala, who is also its major financial sponsor. Rapala Foundation also arranges environmental and fishing related education and experience for hundreds of school children in Spain. Similar activities were sponsored also e.g. in Japan and South Africa.

No material environmental accidents or hazards occurred in 2007.



Shareholder Information

ANNUAL GENERAL MEETING

The Annual General Meeting (AGM) of Rapala VMC Corporation will be held at 10.00 on April 3, 2008 at Rapala Office, Arabianranta 6, Helsinki, Finland.

In order to attend the AGM shareholders must register in the Company's shareholder register maintained by the Finnish Central Securities Depository Ltd (Suomen Arvopaperikeskus Oy) by March 20, 2008. Nominee-registered shareholders who wish to attend the AGM should temporarily re-register the shares under their own name. Such re-registration must be made no later than March 20, 2008.

Shareholders who wish to attend the AGM must notify the Company no later than March 25, 2008 at 4 pm (Finnish time). Instructions for submitting notice of attendance, as well as additional information on the AGM, are available at www.rapala.com.

FINANCIAL REPORTING SCHEDULE IN 2008

In 2008 Rapala will publish financial information as follows:

1st Quarter 2008
Interim Report on April 23, 2008

2nd Quarter 2008
Interim Report on July 23, 2008

3rd Quarter 2008
Interim Report on October 22, 2008

ANALYSTS COVERING RAPALA

The following analysts follow Rapala and prepare investment analysis on it. These persons cover Rapala on their own initiative.

ABN AMRO
Rauli Juva

eQ Bank
Tomi Tiilola

Evli Bank
Mika Karppinen

FIM Securities
Jussi Hyöty

Kaupthing Bank
Martin Sundman

SEB Enskilda
Jutta Rahikainen

Pohjola Bank plc.
Anita Kostermaa

E. Öhman J:or Securities
Lauri Pietarinen

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December 13
Closing of lure factory in Ireland
November 30
Consolidation of French operations proceeds
October 25
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October 25
Interim Report Q3
October 24
Shimano's subscription of shares and share capital increase
October 11
Establishment of a joint venture with Shimano for Russia and Ukraine distribution
July 26
Interim Report Q2
July 2
Consolidation of the French operations
June 18
Strengthening of the distribution alliance with Shimano in South-East Europe
June 18
Appointments to Executive Committee
April 26
Interim Report Q1
April 4
Decisions of Annual General Meeting
April 4
Subscription of new shares with 2003A option rights and increase of the share capital
Mar 19
Annual Report 2006 published
Mar 15
Notice to convene the Annual General Meeting
Feb 6
Annual Accounts 2006
Jan 4
Acquisition of Terminator

CONTACTS

Should you require more information about Rapala, please do not hesitate to contact one of the following persons:

Jouni Grönroos
Chief Financial Officer
Tel: +358 9 7562 5417
Fax: +358 9 7562 5440
E-mail: jouni.gronroos@rapala.fi

Olli Aho
Company Councel and Investor Relations
Tel: +358 9 7562 540
Fax: +358 9 7562 5440
E-mail: olli.aho@rapala.fi

Locations of Business Operations

Printed in Finland by Libris | Paper: Edixion 300/120 | Design and layout by Kuudes Kerros | www.kuudes.fi

www.rapala.com

Rapala VMC Corporation is a public company
listed on the OMX Nordic Exchange in Helsinki